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C O N T E N T S

WITNESSES APPEARING:

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 ANTOINETTE CROWDER
 ALLAN T. INGRAHAM
 ROBERT W. MITCHELL
 ABDIRAHMAN ABDULKADIR
 LOU BRADFIELD
 JOYCE MCGARVY

| <u>WITNESSES:</u> | <u>DIRECT</u> | <u>CROSS</u> | <u>REDIRECT</u> | <u>RECROSS</u> | <u>VOIR DIRE</u> |
|--------------------|---------------|--------------|-----------------|----------------|------------------|
| Lawrence G. Buc | 11684 | -- | -- | -- | -- |
| By Mr. Horwood | -- | 11700 | -- | -- | -- |
| Antoinette Crowder | 11713 | -- | 11839 | -- | -- |
| By Mr. Baker | -- | 11767 | -- | -- | -- |
| By Mr. Olson | -- | 11787 | -- | -- | -- |
| By Mr. Scanlon | -- | 11836 | -- | -- | -- |
| Allan T. Ingraham | 11844 | -- | -- | -- | -- |
| By Mr. McLaughlin | -- | 11858 | -- | -- | -- |
| By Mr. Todd | -- | 11865 | -- | -- | -- |
| By Mr. Olson | -- | 11871 | -- | -- | -- |
| By Mr. Koetting | -- | 11895 | -- | -- | -- |
| By Mr. Goldway | -- | 11898 | -- | -- | -- |
| Robert W. Mitchell | 11901 | -- | -- | -- | -- |
| By Mr. McLaughlin | -- | 11913 | -- | -- | -- |
| By Mr. Straus | -- | 11939 | -- | -- | -- |
| By Mr. Todd | -- | 11941 | -- | -- | -- |
| Abdirahman | | | | | |
| Abdulkadir | 11943 | -- | -- | -- | -- |
| By Ms. Wood | -- | 11969 | -- | -- | -- |
| By Mr. Hall | -- | 12022 | -- | -- | -- |
| By Mr. Scanlon | -- | 12055 | -- | -- | -- |
| Lou Bradfield | 12057 | -- | -- | -- | -- |
| By Mr. Levy | -- | 12094 | -- | -- | -- |
| By Mr. Straus | -- | 12170 | -- | -- | -- |
| Joyce McGarvy | 12172 | -- | -- | -- | -- |
| By Mr. Levy | -- | 12185 | -- | -- | -- |

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P R O C E E D I N G S

(9:33 a.m.)

CHAIRMAN OMAS: Good morning. Today we continue hearings to receive testimony in rebuttal to participants' direct testimony in Docket R2006-1.

Today we will hear testimony from seven witnesses: Mr. Buc, Ms. Crowder, Ingraham, Mitchell, Abdirahman, Bradfield and McGarvy.

Before we proceed, does anyone have any procedural matters to bring before the Commission at this point?

MS. RUSH: Mr. Chairman?

CHAIRMAN OMAS: Yes?

MS. RUSH: Tonda Rush with the National Newspaper Association advising the Commission that we filed a notice and a motion with respect to Dr. Bozzo's appearance tomorrow, a motion for a late notice for cross-examination. We have withdrawn the interrogatories we propounded.

CHAIRMAN OMAS: Okay. Thank you.

Is there anyone else?

(No response.)

CHAIRMAN OMAS: There being none, Mr. Ackerly?

MR. ACKERLY: I call Mr. Lawrence Buc to the

Heritage Reporting Corporation
(202) 628-4888

1 stand, please.

2 Whereupon,

3 LAWRENCE G. BUC

4 having been previously duly sworn, was
5 recalled as a witness herein and was examined and
6 testified further as follows:

7 CHAIRMAN OMAS: Mr. Buc, you've been sworn
8 in this proceeding, and you may begin.

9 (The document referred to was
10 marked for identification as
11 Exhibit No. DMA-RT-1.)

12 DIRECT EXAMINATION

13 BY MR. ACKERLY:

14 Q Mr. Buc, I am showing you a copy of a
15 document that's been previously filed in this
16 proceeding entitled Rebuttal Testimony of Lawrence G.
17 Buc on Behalf of Direct Marketing Association and
18 identified as DMA-RT-1.

19 Would you state for the record please
20 whether this testimony has been prepared by you or
21 under your supervision?

22 A It was.

23 MR. ACKERLY: Mr. Chairman, I am handing two
24 copies of the testimony to the reporter and ask that
25 it be admitted into evidence.

1 CHAIRMAN OMAS: Is there any objection?

2 (No response.)

3 CHAIRMAN OMAS: Hearing none, I will direct
4 counsel to provide the reporter with two copies of the
5 corrected testimony of Lawrence G. Buc.

6 That testimony is received into evidence and
7 is to be transcribed into the record.

8 (The document referred to,
9 previously identified as
10 Exhibit No. DMA-RT-1, was
11 received in evidence.)

12 //

13 //

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Postal Rate Commission
Submitted 11/20/2006 2:29 pm
Filing ID: 55031
Accepted 11/20/2006
~~DMA-RT-1~~

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

)
)
)
Postal Rate and Fee Changes, 2006

Docket No. R2006-1

REBUTTAL TESTIMONY OF LAWRENCE G. BUC
ON BEHALF OF
DIRECT MARKETING ASSOCIATION, INC.

Communications regarding this testimony
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Inc.*

November 20, 2006

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1 **AUTOBIOGRAPHICAL SKETCH**

2
3 My name is Lawrence G. Buc. I am the President of SLS Consulting, Inc.
4 ("SLS"), a Washington, D.C., consulting firm specializing in postal economics. I
5 submitted direct testimony in this case for Direct Marketing Association, Inc., *et al.*,
6 (DMA-T-1.)

7 SLS has represented banks in four of the five Negotiated Service Agreements
8 (NSAs) entered into by the Postal Service with credit card issuers (Capital One, Bank
9 One/JPMorgan Chase, HSBC, and Washington Mutual Bank). I was personally a witness
10 in the Bank One NSA. I have also performed analyses for clients on how banks make
11 marketing decisions and the mailing implications of these decisions.

12 I was also a lead author in a major study of the Fair Credit Reporting Act and
13 directed an analysis for this study on prescreened offers of credit. I developed and
14 distributed a survey and received responses from credit issuers that are major users of
15 prescreening, as well as from others that do not rely heavily on prescreening. Our
16 responses on prescreening included bank type credit card issuers representing six of the
17 then top 13 bank issuers, and accounted for over half of all active MasterCard and VISA
18 accounts at the time (i.e., about 153 million of the 281 million accounts). One dimension
19 of the study collected information from banks on their channels for marketing credit
20 cards.

21 **I. PURPOSE AND SCOPE OF TESTIMONY**

22 GCA witness Clifton (GCA-T-1) estimates the elasticity of Single-Piece First-
23 Class Mail, finding it to be more elastic than estimated by USPS witness Thress. Based
24 on his analysis, he proposes that the Commission reduce the rate for Single-Piece First-
25 Class Mail by one cent and make up the resulting revenue loss from Standard Regular

1 Mail. Clifton, GCA-T-1 at 3.¹ Witness Clifton discusses one use of Single-Piece First-
2 Class Mail - in the bill payments market - to illustrate his point generally and to motivate
3 his analysis. Clifton, GCA-T-1 at 11-33. Witness Clifton also contends that Standard
4 Regular Mail is becoming increasingly inelastic because of Internet diversion. Clifton,
5 GCA-T-1 at 53.

6 In this testimony, I show that Standard Mail mailers in general, and banks in
7 particular, have and use a large number of channels for marketing. I also show that they
8 make decisions concerning channels based on cost effectiveness. This reality has
9 important ramifications for elasticity, since elasticity critically depends on the availability
10 of alternatives. It would be a major mistake to ignore this reality in pricing Standard
11 Mail. Interestingly, one channel that marketers and advertisers are using more and more
12 frequently is the Internet, which also provides an alternative for bill paying. It is
13 counterintuitive to believe, as Clifton suggests, that this channel could result in the
14 demand for Single-Piece First-Class Mail becoming more elastic while Standard Regular
15 becomes less elastic.

16 **II. MARKETERS AND ADVERTISERS HAVE A WIDE ARRAY OF**
17 **OPTIONS FOR THEIR MARKETING AND ADVERTISING MESSAGES.**

18 The US economy provides a wide array of marketing and advertising channels,
19 and marketers and advertisers avail themselves of them. Direct mail is only one of these
20 channels. As USPS witness Thress shows in his testimony, USPS-T-7 at 92, in 2005,
21 direct mail accounted for only 20.5 percent of all major media advertising expenditures,
22 trailing television at 23.5 percent, "other" (which includes Internet and event marketing)

¹ Note that shortly before the hearing he revised his testimony to extend the one-cent rate reduction to presort 1C letter mail if the Commission rejects delinking.

1 at 27 percent, but leading newspapers at 17.4 percent, radio at 7.2 percent, and magazines
2 at 4.7 percent. The results for this year are consistent with those for previous years; long
3 term trends have shown a consistent decrease of the share of advertising in newspapers
4 and offsetting increases in the share of advertising in television and direct mail. Thress,
5 USPS-T-7 at 92.

6 These marketing and advertising decisions can be viewed through the lens of
7 basic microeconomics. Profit maximizing firms will invest in marketing and advertising
8 until the marginal cost of the investment is equal to its marginal return. This framework
9 applies both in total and to the investments in selected channels. Thus, as USPS witness
10 Thress observes, with respect to the mail:

11 The decision process made by direct-mail advertisers
12 can be decomposed into three separate, but interrelated
13 decisions:

- 14
15 (1) How much to invest in advertising?
16 (2) Which advertising media to use?
17 (3) Which mail category to use to send
18 mail-based advertising?
19
20

21 Thress, USPS-T-7 at 93. The results of these decisions are reflected in the national data
22 showing total advertising and marketing expenditures and the share by media.

23 **III. EXPERIENCE, NSA RECORDS, AND DISCUSSIONS WITH BANKS ALL**
24 **CONFIRM THAT BANKS HAVE AND USE A WIDE ARRAY OF**
25 **ALTERNATIVES TO THE MAIL FOR MARKETING CREDIT CARD**
26 **SERVICES.**

27 Everyone who gets mail and looks at the postage knows that banks use Standard
28 Mail for marketing credit cards. And anyone who reads the NSA Data Collection reports
29 begins to get a more quantitative understanding. For example, the MC2002-2 (Capital
30 One) Data Collection Report for October 2004 – September 2005 shows that Capital One

1 mailed over a billion pieces of Standard Mail in this period.² As another example, the
2 MC2004-3 (Bank One) Data Collection Report shows that JP Morgan Chase mailed 446
3 million pieces of Standard Mail in the six months between the beginning of April, 2005
4 and the end of September of that year.³ Likewise, the MC2004-4 (Discover Financial
5 Services) Data Collection Report shows that Discover mailed 445 million pieces of
6 Standard Mail in calendar year 2005.⁴

7 However, mail is not the only channel of marketing credit cards - there are
8 alternatives. Last year, at a DC United game I attended, representatives of a bank were
9 handing out T-shirts to anyone willing to fill out a credit card application. Several
10 months ago, while walking through the Charlotte, NC, airport terminal, I noticed
11 representatives of a national bank soliciting for credit cards applications. This was
12 particularly interesting because I had been given an application from this same bank on
13 the flight to Charlotte. Two weeks ago, I purchased a book on a web site and was offered
14 a considerable discount if I signed up on the Internet for a new credit card. And the
15 tellers at my bank often try to sign me up for their credit card; even when they do not,
16 there are applications for the taking on the counter.

17 In the BankOne NSA proceeding, the OCA explored marketing channels in an
18 interrogatory:

19 Please list the primary medias used by Bank One to attract new
20 credit card customers , e.g. direct mail, television ads, radio ads,
21 newspaper ads, magazine ads, internet ads, telephone, placements
22 in retail facilities. MC2004-3 Tr. 2/137,
23

24 Bank One witness Brad Rappaport responded:

² Relevant portions of the report are reproduced at Tr. 29/9997-98.

³ Relevant portions of the report are reproduced in Exhibit DMA-R1, attached hereto.

⁴ Relevant portions of the report are reproduced in Exhibit DMA-R2, attached hereto.

1
2 Other media channels that are widely used in this industry include
3 telemarketing, Internet, on-site, and event marketing. *Id.*

4
5 These other channels are not only used, they are successful. Witness Rappaport

6 went on to quote from BankOne's 2003 Annual Report:

7 We also developed successful new marketing channels that do not rely on
8 direct mail, which is becoming increasingly more expensive and less
9 effective. In 2003, for the first time, direct mail sales accounted for less
10 than half of our new accounts. Several partners, including Disney,
11 Starbucks and Amazon, are using their Internet sites to allow customers to
12 apply for cards. Perhaps the most innovative distribution channel is
13 Avon's 600,000 representatives who are now offering the Avon reward
14 card to their customers. MC2004-3 Tr. 2/137.

15
16 The Bank One case is not the only NSA proceeding the record of which contains
17 evidence showing that banks have and use alternatives to the mail for soliciting credit
18 cards. As HSBC witness Harvey testified:

19 Mail is one of several channels available for marketing financial services,
20 and faces increasing competition from alternatives, such as E-mail and the
21 Internet, event marketing, merchant marketing, telemarketing, print,
22 television, radio, and outdoor advertising. The attractiveness of these
23 alternative channels is likely to increase if the next postal rate case results
24 in a substantial increase in postal rates. MC2005-2 Tr. 2/35.

25
26 Washington Mutual Bank Witness Michael Rappaport reported an additional
27 channel:

28 From Year 1 to Year 2 and 3, our expectation is that our credit
29 card sales in Washington Mutual retail stores (aka branches) will
30 become a greater percentage of our account growth – these accounts
31 are booked without a solicitation mailing accompanying it.⁵

32
33 Finally, the Discover NSA provides even broader evidence on not just the issue of
34 alternatives but also on how banks choose between these alternatives:

⁵ Response of Washington Mutual Bank witness Michael Rappaport to Presiding Officer's Information Request No. 1, Question 1 C.

1 DFS assesses the viability of its marketing strategies on an ongoing basis.
2 We do so by evaluating the efficiency of various marketing channels, and
3 strive to use those that are most productive. While mail provides many
4 benefits, this channel does face increasing competition. DFS utilizes a
5 variety of marketing channels: telemarketing, event marketing, and
6 merchant marketing, as well as print, television, radio, and outdoor
7 advertising. We also use email and the Internet. MC2004-4 Tr. 2/33.
8

9 **IV. CONCLUSION**

10 From my experience with banks in NSAs, analyses for trade groups, and from my
11 work on the Fair Credit Reporting Act, I can say that Discover's approach is not
12 uncommon. Banks build and use models to allocate media expenditures across marketing
13 channels based on the cost effectiveness of these various channels. There are clearly
14 alternatives to Standard Mail, and its price plays an important role in determining how
15 much banks and other commercial mailers spend on it as a marketing channel, just as
16 basic microeconomic principles predict.

Exhibit DMA-R1

Postal Rate Commission

Submitted 2/7/2006 3:32 pm

Filing ID: 47789

Accepted 2/7/2006

LEGAL POLICY & RATEMAKING LAW SECTION
LAW DEPARTMENT

February 7, 2006

Hon. Steven W. Williams, Secretary
Postal Rate Commission
901 New York Avenue, NW
Suite 200
Washington, DC 20268-0001

RE: Docket No. MC2004-3

Dear Mr. Williams:

In accordance with the Commission's Opinion and Recommended Decision in Docket No. MC2004-3, Rate and Service Changes to Implement Functionally Equivalent Negotiated Service Agreement with Bank One Corporation, enclosed is the Postal Service's Data Collection Report for the time period April 1, 2005 to September 30, 2005. The report was due January 30, 2006, and we apologize for the delay.

Please note that I have enclosed with this letter a disk with data responsive to Data Collection Requirement No. 8 because the data are too voluminous to file electronically. The rest of the report has been filed electronically.

Sincerely,

Nan K. McKenzie
Attorney

Enclosures

**MC2004-3 Data Collection Report
JP Morgan Chase (Bank One) NSA
April 2005 – September 2005**

Data Collection Plan Requirements:

1. Volume of First-Class Mail solicitations by rate category in eligible Bank One permit accounts.
2. Volume of First-Class Mail customer mail by rate category in eligible Bank One permit accounts.
3. Amount of discounts paid to Bank One for First-Class Mail by incremental volume block.
4. Volumes of First-Class Mail solicitations bearing the ACS endorsement that are physically returned to Bank One.
5. Number of electronic address correction notices provided to Bank One for forwarded solicitation mail pieces, including the number of notices processed by CFS units and separately for PARS (when fully operational).
6. Number of electronic address correction notices provided to Bank One for solicitation mail pieces that would otherwise be physically returned, including the number of notices processed by CFS units and separately for PARS (when fully operational).
7. Monthly estimate of the amount of time spent on compliance activity and a description of the activities performed.
8. For each First Class solicitation mailing list run against NCOA, Bank One will provide NCOA contractor reports that separately identify the number of address records checked and the number of corrections made.
9. For each Change of Address record that is used to forward a piece of Bank One solicitation mail through ACS under the Agreement, the Postal Service will provide the date the record was created, its move effective date, whether it was for a family or individual move, and each date that the record was used to forward a mail piece. No other information from the record would be provided.
10. As part of each data collection plan report, the Postal Service will provide an evaluation of the impact of the agreement on contribution. It will also provide an assessment of trends of Bank One's First-Class Mail volume as compared to overall First-Class Mail volume.
11. Volume of Standard Mail solicitations by rate category in eligible Bank One permit accounts.
12. A comparison of the estimated mailer-specific costs, volumes, and revenues with the actual mailer-specific costs, volumes, and revenues.

**MC2004-3 Data Collection Report
JP Morgan Chase (Bank One) NSA
April 2005 – September 2005**

11. Data Collection Requirement Number 11

Volume of Standard Mail solicitations by rate category in eligible Bank One permit accounts.

| Mail Category | Volume |
|----------------------|---------------|
| Mixed AADC Auto | 52,333 |
| AADC Auto | 233,501 |
| 3-Digit Auto | 119,776,541 |
| 5-Digit Auto | 170,767,183 |
| Basic Nonauto | 128,434,325 |
| 3/5 Digit Nonauto | 26,796,609 |
| Total Volume | 446,060,492 |

| ECR Mail Category | Volume |
|--------------------------|---------------|
| Basic Nonauto Letters | 22,389,385 |
| Basic Auto Letters | - |
| Saturation Letters | - |
| Total Volume | 22,389,385 |

Volumes are captured on a monthly basis, but these figures may change after final reconciliation with Permit and CBCIS data after the one-year anniversary of the NSA.

Exhibit DMA-R2

Postal Rate Commission
Submitted 2/7/2006 3:36 pm
Filing ID: 47788
Accepted 2/7/2006

LEGAL POLICY & RATEMAKING LAW SECTION
LAW DEPARTMENT



February 7, 2006

Hon. Steven W. Williams, Secretary
Postal Rate Commission
901 New York Avenue, NW
Suite 200
Washington, DC 20268-0001

RE: Docket No. MC2004-4

Dear Mr. Williams:

In accordance with the Commission's Opinion and Recommended Decision in Docket No. MC2004-4, Rate and Service Changes to Implement Functionally Equivalent Negotiated Service Agreement with Discover Financial Services, Inc., enclosed is the Postal Service's Data Collection Report for the time period January 1, 2005, to December 31, 2005.

Sincerely,

Brian M. Reimer
Attorney

Enclosures

Docket No. MC 2004-4 Data Collection Report
Discover Financial Services NSA
January 2005 – December 2005

Data Collection Plan Requirements:

1. Volume of First-Class Mail solicitations by rate category in eligible DFS permit accounts.
2. Volume of First-Class Mail customer mail by rate category in eligible DFS permit accounts.
3. Amount of discounts paid to DFS for First-Class Mail by incremental volume block.
4. Volumes of First-Class Mail solicitations bearing the ACS endorsement that are physically returned to DFS.
5. Number of electronic address correction notices provided to DFS for forwarded solicitation mail pieces, including the number of notices processed by CFS units and separately for PARS (when fully operational).
6. Number of electronic address correction notices provided to DFS for solicitation mail pieces that would otherwise be physically returned, including the number of notices processed by CFS units and separately for PARS (when fully operational).
7. Monthly estimate of the amount of time spent on compliance activity and a description of the activities performed.
8. For each First Class solicitation mailing list run against NCOA, DFS will provide NCOA contractor reports that separately identify the number of address records checked and the number of corrections made.
9. For each Change of Address record that is used to forward a piece of DFS solicitation mail through ACS under the Agreement, the Postal Service will provide the date the record was created, its move effective date, whether it was for a family or individual move, and each date that the record was used to forward a mail piece. No other information from the record would be provided.
10. As part of each data collection plan report, the Postal Service will provide an evaluation of the impact of the agreement on contribution. It will also provide an assessment of trends of DFS's First-Class Mail volume as compared to overall First-Class Mail volume.
11. Volume of Standard Mail solicitations by rate category in eligible DFS permit accounts.
12. A comparison of the estimated mailer-specific costs, volumes, and revenues with the actual mailer-specific costs, volumes, and revenues.

Docket No. MC 2004-4 Data Collection Report
Discover Financial Services NSA
January 2005 – December 2005

11. Data Collection Requirement 11

Volume of Standard Mail solicitations by rate category in eligible DFS permit accounts.

| Mail Category | Volume |
|----------------------|---------------|
| Mixed AADC Auto | 53,828,982 |
| AADC Auto | 39,306,079 |
| 3-Digit Auto | 42,064,882 |
| 5-Digit Auto | 192,593,269 |
| Basic Nonauto | 100,609,374 |
| 3/5 Digit Nonauto | 16,874,135 |
| Total Volume | 445,276,721 |

| ECR Mail Category | Volume |
|--------------------------|---------------|
| Basic Nonauto Letters | 15,702,842 |
| Basic Auto Letters | 203,404 |
| Saturation Letters | - |
| Total Volume | 15,906,246 |

1 CHAIRMAN OMAS: This now brings us to oral
2 cross-examination.

3 There has been one request for oral cross.
4 Mr. Horwood, would you introduce yourself for the
5 record, please?

6 MR. HORWOOD: Yes. I am James Horwood
7 representing the Greeting Card Association.

8 CROSS-EXAMINATION

9 BY MR. HORWOOD:

10 Q Good morning, Mr. Buc.

11 A Good morning, Mr. Horwood.

12 Q Referring to page 1 of your testimony, on
13 line 16 you refer to work you had done on the study of
14 the Fair Credit Reporting Act, and you refer to bank
15 type credit card issuers. What do you mean by bank
16 type credit card issuers?

17 A I mean the common cards that you have in
18 your wallet that's a MasterCard or a Visa, not the
19 old-style store credit card where you might have
20 gotten one from the Hecht Company.

21 Q On line 7 you said that SLS has represented
22 banks in four of the five negotiated service
23 agreements entered into by the Postal Service with
24 credit card issuers and identify those four. What is
25 the fifth major?

1 A The fifth is Discover.

2 Q Okay. Is Discover a bank in the traditional
3 sense of a bank that has a building and branches, or
4 is it principally a credit card issuer?

5 A I believe it's principally a credit card
6 issuer.

7 Q Is the same true for Capital One?

8 A I think that -- I'm not an employee of Cap
9 One. I don't speak for their marketing strategy, but
10 if you read the papers it looks like Cap One is
11 attempting to also turn itself into a bricks and
12 mortar bank. In addition to that, it does automobile
13 loans, as well as credit cards.

14 Q Do you know whether it has retail branches
15 at this time?

16 A I don't know whether they're branded as Cap
17 One, but it has acquired banks and does fully own
18 banks now that have a retail presence. I don't know
19 how they're branded.

20 Q Okay. Thank you. On page 3 of your
21 testimony starting on line 27 you state that banks use
22 standard mail for marketing credit cards and go on to
23 state recent volumes. Capital One, one billion plus;
24 JP Morgan, 446 million, which would annualize to 992
25 million cards; and Discover Card, 445 million.

1 Would you accept subject to check that
2 that's about a total of 2.5 billion pieces for those
3 three major banks?

4 A Yes.

5 Q Do you know approximately how many pieces of
6 total standard mail was sent by the banking industry
7 over that same time period?

8 A I don't know the exact number. It's six
9 billion, eight billion, 10 billion, in that sort of
10 range.

11 Q Have you looked at the ABA survey for 2005
12 that's referred to by Mr. Thress in his testimony?

13 A I haven't.

14 Q Would you accept subject to check that that
15 document shows that approximately 3.6 billion pieces
16 was sent by the banking industry using standard mail
17 in 2005?

18 A I would accept subject to check that that's
19 what the study says. I would also not believe that
20 that's the correct answer or number.

21 Q Okay. Why do you believe that's not the
22 correct answer?

23 A We work on NSAs with banks. We know what
24 banks' standard volumes look like. I think they're
25 higher than 3.5 billion pieces.

1 As a matter of fact, I'm ever more certain
2 than "I think." I'm almost positive.

3 Q Do you know whether an explanation might be
4 that that number does not include Capital One and
5 Discover Card?

6 A I'd have to look at the study. I'd have to
7 look at the underlying method. That number is low. I
8 can't tell you why.

9 Q Okay. Has there been a significant increase
10 in the volume of standard regular mail sent by banks
11 since 1999?

12 A Since 1999? I don't know how we would
13 define significant. Five percent? Twenty percent?
14 Fifty? I don't think there's been a 50 percent
15 increase.

16 Q Do you know what the increase has been?

17 A No.

18 Q Okay. Do you know whether the increase has
19 been concentrated in a few banks or not?

20 A Well, what I do know is that if you look at
21 Nielsen and you look at the leading banks each year,
22 the edition of Nielsen that they show who the leading
23 banks are, that the industry has been concentrating.

24 There have been mergers. There are fewer
25 players than there used to be. It's still a fairly

1 competitive industry, still is a competitive industry
2 I would say, but the amount of mail and the amount of
3 receivables outstanding by the top four or top 10 is
4 growing.

5 Q Do you know whether the volume of standard
6 mail sent by banks exceeds that of first class mail
7 sent by banks?

8 A In aggregate?

9 Q Yes.

10 A Both of the numbers are big. I'm not sure
11 which is bigger.

12 Q Okay. You haven't made a study of the
13 amount of mail sent by banks in the respective classes
14 then? Is that correct? The total amount.

15 A Over the years I've looked at numbers. I
16 don't have those figures off the top of my head.

17 Q On the footnote on page 2 of your testimony
18 you state or you note that shortly before the hearing
19 Dr. Clifton revised his testimony to extend the one
20 cent rate reduction to presort first class letter mail
21 if the Commission denies delinking.

22 Didn't Dr. Clifton indicate that proposal in
23 response to a DMA interrogatory filed several weeks
24 prior to his testimony?

25 A I believe that's true.

1 Q So his proposal then was made prior to
2 immediately before his testimony change. Is that
3 correct?

4 A It was made before.

5 Q Would you accept subject to check that his
6 answer to the interrogatory was made on October 11?

7 A Okay. I'll accept that.

8 Q On the bottom of page 1 and top of page 2 of
9 your testimony you state that Witness Clifton proposes
10 to raise rates on standard regular mail because he
11 finds that the elasticity of first class single piece
12 mail is higher than Postal Service Witness Thress
13 claims.

14 Was this the sole basis for Dr. Clifton's
15 recommendation?

16 A Could you repeat the question, please?

17 Q Yes. You state at the bottom of page 1/top
18 of page 2 of your testimony that Dr. Clifton proposes
19 to raise rates on standard regular mail because he
20 finds that the elasticity of first class single piece
21 mail is higher than Witness Thress claims. Is that a
22 fair summation?

23 MR. ACKERLY: Excuse me. Mr. Chairman, if I
24 may interrupt?

25 Could I ask counsel to refer to the specific

1 lines because in my review of the witness' testimony
2 in question I don't see that statement.

3 CHAIRMAN OMAS: Mr. Horwood?

4 MR. HORWOOD: Yes. Let me withdraw the
5 question. I think I incorrectly stated it.

6 BY MR. HORWOOD:

7 Q You state that Witness Clifton discusses one
8 use of single piece first class mail to illustrate his
9 point generally and to motivate his analysis. Then
10 you say that Witness Clifton also contends that
11 standard regular mail is becoming increasingly
12 inelastic because of internet diversion.

13 Is the increased inelasticity of internet
14 diversion the sole basis for Dr. Clifton's
15 recommendation?

16 A I don't believe that it is. I think that as
17 I understand Witness Clifton, he estimated the
18 elasticity of single piece first class mail, found it
19 to be more elastic than the Postal Service found it to
20 be.

21 He also has some statements about that
22 standard mail is becoming increasingly inelastic, but
23 I did not see anything from factors of the Act. I did
24 not see a recommendation, for instance, based on
25 analyzing the factors of the Act. As I understand it,

1 his recommendation is based on the elasticities.

2 Q Is it based, on your understanding, on the
3 comparative elasticities rather than the absolute
4 elasticities? By comparative I mean comparative
5 between first class and standard mail.

6 A Well, both first class and single mail are
7 inelastic, so I would think that what Witness Clifton
8 looked at was Thress' elasticity, his estimate of the
9 elasticity and that his recommendation is based
10 primarily on that, his finding a difference between
11 his estimate of an elasticity and Witness Thress'
12 estimate of an elasticity.

13 Q And was that a difference of estimates for
14 first class mail?

15 A First class single piece.

16 Q First class single piece. All right.

17 MR. ACKERLY: Mr. Chairman, if I may
18 interrupt and ask counsel where this line is going?

19 As I understand it, we are talking about the
20 witness' understanding of what Witness Clifton said.
21 Witness Clifton's testimony will stand on the record
22 by itself.

23 If counsel is laying some foundation for a
24 question I have no objection. On the other hand, I
25 don't think that it is appropriate to have Mr. Buc

1 interpret Mr. Clifton's testimony at any great length
2 unless there is some question following.

3 MR. HORWOOD: I'm not going to ask him to
4 interpret Dr. Clifton's testimony, but I'd like to
5 show that the statement on page 2 reflects an
6 incomplete reference or incomplete understanding of
7 what Dr. Clifton recommended.

8 CHAIRMAN OMAS: On page 2 of what, Dr.
9 Clifton's testimony? Page 2 of Dr. Clifton's
10 testimony?

11 MR. HORWOOD: No. Mr. Buc's testimony. Let
12 me posit my next question and see if that helps tie it
13 together.

14 BY MR. HORWOOD:

15 Q If you would look, please, to page 60 of Dr.
16 Clifton's testimony? Doesn't Dr. Clifton there talk
17 about the relative institutional unit cost
18 contributions between first class and standard mail is
19 a factor in his recommendation?

20 A Could you point me to a line reference,
21 please, on page 60?

22 Q The paragraph beginning on line 3 and going
23 through the end of the page.

24 A He does talk about institutional unit cost
25 contributions in this paragraph.

1 Q And did you understand that as part of his
2 recommendation?

3 A I do.

4 Q Have you made any study of the price
5 elasticities of standard mail?

6 A In a formal, quantified sense?

7 Q Yes.

8 A Using econometrics?

9 Q Econometrics or any other method of --

10 A We actually did a study for banks on
11 marketing mail that grouped standard mail together
12 with their first class workshared mail.

13 We took a group of banks confidential, asked
14 them to run through their marketing models, how they
15 would respond to changes, increases, decreases,
16 increases in prices and from those models got answers
17 on what they would mail and from that got an
18 elasticity, so I had first class marketing mail
19 grouped with their standard marketing mail in that
20 estimate, that model.

21 Q And when was that study done?

22 A I think that was about two years ago.

23 Q Are you familiar with the own price
24 elasticity for standard mail that Mr. Thress has
25 calculated?

1 A I know about what the value that he
2 calculated was. I'm not intimately familiar with the
3 details of his econometrics.

4 Q Do you question the value that he
5 calculated?

6 A I haven't looked through Thress'
7 econometrics in any detail enough to criticize his
8 values. It's beyond what I did in this case.

9 Q All right. So far as you know, there are
10 two estimates of price elasticities for standard mail
11 in this case, Mr. Thress' and Dr. Clifton's. Is that
12 right?

13 A Okay.

14 Q Do you know whether they reach fairly
15 similar conclusions, and I'm only talking about
16 standard mail here.

17 A When you say fairly similar, are we saying
18 that we believe within a confidence interval or within
19 a 95 percent confidence interval that they overlap?

20 Q Yes, we can start with that.

21 A Well, having thrown it out there, no, I'm
22 not sure whether or not they overlap.

23 Q Okay.

24 A If I had to bet a 50/50 bet with you I would
25 bet that they overlap.

1 Q One final matter. In Section 3 of your
2 testimony you talk about banks handing out t-shirts at
3 a soccer game and at airports. Do you know whether
4 this is a cost effective means of marketing by banks?

5 A Well, this is generally called event
6 marketing. All banks do some event marketing, or many
7 banks do some event marketing.

8 From that I would infer that event marketing
9 to hit some audiences, to hit some potential
10 customers, is a cost effective means of marketing.
11 Either that, or a lot of them are throwing away a lot
12 of money.

13 Q Do you know whether that's a form of
14 marketing that is perceived as competing with
15 marketing by direct mail?

16 A Banks have lots of different channels
17 through which they market credit cards. As I say in
18 my testimony, they pick those based on modeling and
19 cost effectiveness, and to the extent that a bank has
20 a limited marketing budget if they spend \$1 here they
21 don't spend \$1 there.

22 Now, when response rates change, when the
23 market changes, maybe the marketing budgets change,
24 but, yes, event marketing competes for marketing
25 budget with direct mail.

1 Q Is the handing out of credit card
2 applications in airports event marketing?

3 A I don't know if we would exactly call that
4 event marketing. I think event marketing more as
5 being -- the next time I talk to one of the banks I'm
6 going to ask them whether they consider that event
7 marketing.

8 MR. HORWOOD: Thank you. I have no further
9 questions.

10 CHAIRMAN OMAS: Thank you, Mr. Horwood.

11 Is there anyone else who wishes to cross-
12 examine Witness Buc?

13 (No response.)

14 CHAIRMAN OMAS: Are there any questions from
15 the bench?

16 (No response.)

17 CHAIRMAN OMAS: Mr. Ackerly, would you like
18 some time with your witness?

19 MR. ACKERLY: No. Thank you, Mr. Chairman.

20 CHAIRMAN OMAS: Thank you, Mr. Ackerly.

21 Mr. Buc, that concludes your testimony here
22 today. We appreciate your contribution to the record,
23 and you are now excused.

24 THE WITNESS: Thank you.

25 (Witness excused.)

1 CHAIRMAN OMAS: Mr. McLaughlin, please call
2 your witness.

3 MR. MCLAUGHLIN: Thank you, Mr. Chairman.
4 I'm Tom McLaughlin on behalf of the Saturation Mailers
5 Coalition and Advo, Inc., and we call as our rebuttal
6 witness Antoinette Crowder.

7 Whereupon,

8 ANTOINETTE CROWDER

9 having been previously duly sworn, was
10 recalled as a witness herein and was examined and
11 testified further as follows:

12 CHAIRMAN OMAS: Ms. Crowder has been sworn
13 in in this proceeding. Welcome, Ms. Crowder.

14 You may begin.

15 MR. MCLAUGHLIN: Let me give the witness a
16 moment to get settled in here.

17 (The document referred to was
18 marked for identification as
19 Exhibit No. SMC-RT-1.)

20 DIRECT EXAMINATION

21 BY MR. MCLAUGHLIN:

22 Q Ms. Crowder, would you state your name for
23 the record, please?

24 A Antoinette Crowder.

25 CHAIRMAN OMAS: Turn your microphone on, Ms.

1 Crowder.

2 BY MR. MCLAUGHLIN:

3 Q I'm going to be handing you two copies of a
4 document captioned Rebuttal Testimony of Antoinette
5 Crowder on Behalf of the Saturation Mailers Coalition
6 and Advo, Inc. identified as SMC-RT-1.

7 Was this testimony prepared by you or under
8 your direction and supervision?

9 A Yes, it was.

10 MR. MCLAUGHLIN: Mr. Chairman, we did
11 identify some errata to the testimony, much of it
12 relating to just references to workpapers in her
13 accompanying library reference.

14 We are filing the errata today, and if I can
15 get out of here by 4:00 we'll file the corrected
16 testimony electronically, but I have copies of the
17 corrected testimony with me and I will hand out at
18 this time a list of the errata for anyone who wants to
19 see it.

20 CHAIRMAN OMAS: Thank you.

21 (Pause.)

22 MR. MCLAUGHLIN: Mr. Chairman, the documents
23 that I've handed to you, the rebuttal testimony, as
24 you'll see in the bottom lower corner says Corrected
25 and Refiled December 4, 2006. That does reflect the

1 corrections in the errata sheet.

2 BY MR. MCLAUGHLIN:

3 Q Ms. Crowder, with those corrections
4 identified in the errata notice is your testimony true
5 and correct to the best of your information and
6 belief?

7 A Yes, it is.

8 MR. MCLAUGHLIN: Mr. Chairman, I would
9 request that SMC-RT-1 be received into evidence.

10 CHAIRMAN OMAS: Is there any objection?

11 (No response.)

12 CHAIRMAN OMAS: Hearing none, I will ask
13 counsel to provide the reporter with two copies of the
14 corrected testimony of Antoinette Crowder.

15 That testimony is received into evidence and
16 is to be transcribed into the record.

17 (The document referred to,
18 previously identified as
19 Exhibit No. SMC-RT-1, was
20 received in evidence.)

21 //

22 //

23 //

24 //

25 //

SMC-RT-1

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001**

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

**REBUTTAL TESTIMONY
OF
ANTOINETTE CROWDER
ON BEHALF OF
THE SATURATION MAILERS COALITION AND ADVO, INC.**

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**November 20, 2006
(Corrected and refiled December 4, 2006)**

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PURPOSE AND SUMMARY OF TESTIMONY

The purpose of my testimony is to address the serious deficiencies and inaccuracies in:

- The ECR rate design proposals of Valpak (VP) witness Robert Mitchell (VP-T-1) and Newspaper Association of America (NAA) witness Allan Ingraham (NAA-T-2), and
- The ECR costing comments and proposals of VP witnesses John Haldi (VP-T-2) and Robert Mitchell (VP-T-3).

With respect to ECR rate design, I also show corrections that would yield a more efficient and competitively unbiased set of ECR rates.

Mr. Mitchell and Dr. Ingraham propose ECR rate designs that include the USPS proposed DAL surcharge. However, they both incorrectly develop the piece rate for on-piece-addressed Saturation flats that do not use DALs, resulting in a rate that is too high relative to all other ECR piece rates. They also propose an ECR pound rate that is excessive relative to their proposed piece rates. Both of their rate designs have a severe bias against Saturation flat mailers.

Mr. Mitchell also advocates a "Product Pricing" concept with contrived, unrealistic assumptions that, if implemented, would substantially increase the ECR High-Density/Saturation letter-flat piece rate differential. His proposal would artificially reduce letter rates by shifting a greater portion of the subclass revenue burden to flats and pound-rated mail that are already greatly overcharged in relation to weight-related costs.

Finally, Dr. Haldi and Mr. Mitchell absurdly imply that Saturation letters are subsidizing delivery costs for Saturation flats. They are wrong.

1 All three witnesses advocate cost and rate treatments that increase rates for
2 Saturation flat mailers. Unsurprisingly, they represent rival mailers that compete in
3 the saturation delivery market against Saturation flat mailers. By contrast, the
4 Postal Service has offered ECR rates that are reasonably balanced among the
5 competing mailer claimants. The Commission should recognize the extent of
6 competition that the entire saturation market of letters and flats faces and adopt ECR
7 rates that preserve and foster competition.

8 In Section I of my testimony, I present a conservative estimate of cost savings
9 from DAL conversion and the correct unit cost for on-piece addressed saturation.
10 Using that information and relying on principles of Efficient Component Pricing, I
11 develop an alternative set of ECR rates that demonstrates:

- 12 ▪ The on-piece-addressed Saturation flat piece-rate should be much lower
13 than proposed by the USPS.
- 14 ▪ The piece-rate differential between Saturation letters and flats should be
15 less than proposed by the USPS, not greater as proposed by Mr. Mitchell.
- 16 ▪ The piece-rate difference between Saturation and High-Density flats
17 should be about the same as the USPS has already proposed and greater
18 than advocated by Dr. Ingraham.
- 19 ▪ The ECR pound rate should be lower than proposed by either Mr. Mitchell
20 or Dr. Ingraham.

21
22
23
24
25 Adoption of these elements would lead to a more efficient and competitively
26 unbiased set of ECR rates.

27 I would emphasize that the Saturation Mail Coalition (SMC) and ADVO, Inc.
28 (ADVO) support the ECR rates proposed by the Postal Service. That is not because
29 the proposed rates are optimum. To the contrary, I agree with Mr. Mitchell and
30 MOAA witness Prescott (MOAA-T-1) that the ECR cost coverage is too high and

1 needs to be mitigated over time. I further believe that other changes, such as
2 narrowing the Saturation letter-flat piece-rate differential and reducing the pound
3 rate, would be justified as shown in my rebuttal analysis. For the time being,
4 however, the SMC and ADVO are willing to accept these rates – including the DAL
5 surcharge which by itself has huge implications for Saturation flat mailers – as being
6 balanced among competing interests. Further, the SMC has the hopeful expectation
7 that the Postal Service will meet the industry halfway by allowing a “simplified but
8 certified” addressing alternative on city delivery routes as described by SMC witness
9 Gorman. This will enable maximum conversion of DALs and result in greater USPS
10 cost savings than currently foreseen while minimizing the rate impact on Saturation
11 flat mailers.

12 However, to the extent the Commission considers departures from the USPS-
13 proposed ECR rates, it should avoid the severe rate distortions proposed by Mr.
14 Mitchell, Dr. Ingraham, and Dr. Haldi. Rather, any changes for Saturation flats
15 should be in the more economically-efficient direction shown in my analyses
16 summarized above.

17 In Section II, I rebut Mr. Mitchell’s flawed notion that ECR letters and flats are
18 “separate products” that warrant a pricing markup greater than the cost differences.
19 His contention is based on glaring misconceptions about the nature of the markets in
20 which ECR mail competes. Application of his concept would result in imposing the
21 greatest rate burdens on the category of mail – Saturation flats – that is the most
22 price-sensitive of any ECR rate category.

1 In Section III, I rebut Dr. Haldi's claims about the alleged impact of capacity
2 constraints on Saturation letter and flat city carrier delivery costs.

3 In Section IV, I rebut Mr. Mitchell's implication, based on Dr. Haldi's delivery
4 cost contention, that Saturation letters are unfairly "cross-subsidizing" Saturation
5 flats. In particular, I demonstrate that the rates for Saturation flats more than cover
6 even an extreme estimate of their incremental costs, and that under Mitchell's
7 "standalone cost" test, it is Saturation flats that are being burdened by excessive
8 rates.

9 Workpapers supporting the results presented in this rebuttal are included in
10 SMC LR-1. All workpapers cited in the text are Excel files that are included in SMC
11 LR-1. My qualifications are described in the Appendix.

I. THE NAA AND VALPAK RATE DESIGNS ARE FLAWED

NAA witness Ingraham (NAA-T-2) and Valpak witness Mitchell (VP-T-1)

propose alternative ECR rate designs that are conceptually and factually flawed:

- The unit costs they use to develop the Saturation on-piece-addressed flat rate are incorrect and excessive, failing to account for the fact that on-piece-addressed flats will not use a DAL.
- The unit costs they use to develop all piece-rate differentials include weight-related costs for pieces over the breakpoint.
- Both propose pound rates that are too high.
- Neither properly adjusts ECR/NECR attributable cost to reflect the cost savings that will result from Saturation DALs eliminated from the system as a result of the USPS-proposed DAL surcharge.
- Neither of their rate designs provides for a DAL surcharge that should be applied to the High-Density flats that also use DALs.

These flaws in Mr. Mitchell's and Dr. Ingraham's rates, if accepted, would lead to inefficient, biased rates, and the unintended loss of important USPS volume and institutional cost contribution from Saturation flat mailers. A better set of ECR rates can be designed generally following Efficient Component Pricing (ECP) principles.

To illustrate the shortcomings of their proposals, I explain the proper approach to ECR rate development, provide estimates of the correct cost of on-piece-addressed Saturation flats and the maximum weight-related cost that the pound rate is intended to cover, and present a more cost-based set of ECR rates.

Compared to their proposals, my more appropriate treatment of all the issues would:

- Reduce the piece rate for Saturation on-piece-addressed flats;
- Reduce the ECR pound rate;
- Reduce the Saturation letter-flat piece-rate differential; and

- 1 • Increase the High Density-Saturation flat piece-rate differential.

2 I do not claim that my illustrative rates are "optimum" because I believe the pound
3 rate is still too high and I have not adjusted the piece-rate differentials to eliminate
4 the impact of weight over the breakpoint. In addition, I agree with witness Mitchell
5 that the ECR cost coverage is too high, although my rates are designed to cover the
6 Postal Service's proposed ECR institutional cost contribution. Nevertheless, by ECP
7 standards, the rate relationships I present are directionally and more appropriately
8 right. If the Commission decides it must make changes to the USPS-proposed ECR
9 rates, then it should make them in this direction.

10 **A. ECP Principles Should Be Used To Develop The On-Piece-Addressed**
11 **Flat Rate And The Pound Rate**

12 Under ECP, as espoused by Drs. Panzar and Sidak in this proceeding, rate
13 differences within a subclass should reflect cost differences.¹ This is so that mailers,
14 and businesses that use the services of those mailers, can make decisions that are
15 based on true mailing costs. This is particularly important in the saturation
16 advertising market where there is competition (1) between private delivery
17 alternatives and the Postal Service and (2) among some categories of ECR mail:
18 Saturation flats, Saturation letters, and High-Density flats.² Dr. Ingraham specifically

¹ Dr. Sidak uses the term ECP to apply to the correct pricing principles associated with developing worksharing rates that he believes apply to the ECR shape-based density-related differences. He agrees with Dr. Panzar that the same principles also apply to shape- and weight-related cost and rate differences as long as all categories are assumed to have the same "value." (PB-T-1, pages 45-50; Sidak responses to ADVO/NAA-T1-4 and -5)

² See, e.g., SMC witness Gorman's responses to NAA/SMC-T1-2 -5. Mr. Gorman uses a slightly different term for the market: the "saturation mail industry," or mailers involved in "the assimilation and distribution of advertising matter from numerous retailers, service companies, and entrepreneurs for mailings to consumer households, typically targeted by zip code in a manner that allows each advertiser to select and reach potential customers within their unique service areas, often within a few-miles' radius of their business locations." Mr. Gorman notes that Saturation flat mailers,

1 notes the "potentially significant competitive rate advantage [Saturation mailers
2 could have] over newspaper Total Market Coverage programs that rely on High-
3 Density mail" if the incorrect USPS-proposed High-Density rate is implemented.³
4 Mr. Mitchell simplistically and incorrectly denies rivalry between Saturation/High-
5 Density flats and letters.⁴

6 Thus, in the saturation advertising market, Saturation flat mailers could be
7 significantly hampered competitively vis-à-vis High-Density flats and Saturation letter
8 mailers if an excessively high Saturation on-piece-addressed flat rate (relative to
9 other ECR rates) is implemented. Indeed, the reason why the Saturation flat mailers
10 accept the DAL surcharge is because the DAL cost can then be eliminated from the
11 flat rate, thus ensuring that the competitive position of on-piece-addressed flat
12 mailers is not hampered because other flat mailers use DALs.

13 The same is also true of the ECR pound rate. In the saturation advertising
14 market, program mailers recognize the pound rate as their marginal cost of
15 becoming successful (i.e., attracting advertisers to their packages). In some cases,
16 the pound rate has become a form of "refusal pricing" since these mail programs, as
17 they become heavier, develop a tendency to go to alternative delivery, as noted by
18 Mr. Mitchell:⁵

Saturation letter mailers, and newspapers/private delivery firms that also use mail for TMC programs are all in that market. (Response to NAA/SMC-T1-3)

³ NAA-T-2, pages 2-3, lines 18 ff.

⁴ See, e.g., response to ADVOP-T1-6.

⁵ VP-T-1, page 82, lines 22-26. See also Mr. Gorman's testimony: "More than half of all shopper publications in the nation are delivered privately, outside the mailstream. Private delivery is also an option that is used for distribution of shared mail programs. While SMC's members predominantly use the mail, the bottom line on our distribution choice is our bottom line. We must remain competitive to

1 Much of the mail that is candidate for being handled by alternative carriers
2 weighs more than 3.3 ounces, and therefore pays the pound rates of either
3 ECR or Regular. Private carriers have less difficulty competing for relatively
4 heavy mail than for relatively light mail.

5
6 However, because the ECR pound rate does not comport with ECP principles,
7 mailers (and their advertisers) are getting incorrect signals about the true differences
8 between postal and alternate delivery marginal costs. They are, therefore, making
9 inefficient decisions. This is precisely the type of inefficiency Pitney Bowes witness
10 Panzar warns about.⁶

11 **B. The Correct Cost for Saturation On-Piece-Addressed Flats And The DAL**
12 **Cost Savings Should Be Used To Set Rates**

13 Based on USPS witness Kelley's LR L-67 unit delivery cost calculations, the
14 total TYBR delivery cost associated with Saturation DALs is nearly \$187 million.⁷
15 When DAL mail processing costs are added in, the total DAL costs increase to \$197
16 million.⁸ Because over 40% of Saturation flats currently use DALs, these DAL costs
17 have a major upward impact on the Saturation flat unit cost if included within that
18 cost. However, the purpose of the DAL surcharge is to encourage mailers to
19 eliminate DALs: (1) providing the USPS with cost savings from eliminated DALs and
20 (2) reducing the cost of Saturation flats that convert to on-piece addressing. These
21 cost savings must be reflected in the rate design.

stay in business, and if postal delivery becomes unaffordable or unsuited to our needs, we will have no choice but to pursue other alternatives." (SMC-T-1, page 4, lines 13-19)

⁶ PB-T-1, pages 45-47.

⁷ USPS LR L-67, UDC Model.xls, Sheet 2.summary TY. See also Tr. 12.3511.

⁸ ADVO/USPS-T27-1.xls, ECR-BY&TYDAL, shows \$10,217,000 in TYBR DAL mail processing cost for Saturation flats.

1 No witness in this case disagrees with the Postal Service decision to institute
2 a DAL surcharge to motivate Saturation flat mailers to eliminate costly DALs. While
3 the cost of the DALs is clear, there has been some confusion regarding the cost of
4 on-piece-addressed flats. None of the ECR rate design witnesses use the unit cost
5 of on-piece-addressed Saturation flats. Instead, each incorrectly uses an averaged
6 Saturation flat unit cost that includes the full cost of both on-piece-addressed and
7 DAL-addressed flats (i.e., the total cost of all Saturation flats and all Saturation flat
8 DALs divided by Saturation flat volume). I call this the "Averaged" Saturation flat unit
9 cost.

10 (1) **The "Averaged" Saturation Flat Unit Cost Used By Ingraham And**
11 **Mitchell Is The Wrong Basis For The On-Piece-Addressed**
12 **Saturation Flat Rate**

13 All ECR rate design witnesses appear to recognize that they are using
14 the "Averaged" Saturation flat cost. Mr. Mitchell, like USPS rate design witness
15 Kiefer, tries to account for that fact by increasing the piece-rate difference between
16 High-Density and Saturation flats more than the difference between their unit costs.⁹
17 Dr. Ingraham, in contrast, attempts to recognize some test year cost savings (from
18 DAL eliminations) in the "Averaged" Saturation flat cost by making some simplistic
19 assumptions.¹⁰ Each approach is a rough, imprecise attempt to recognize that on-

⁹ USPS LR L-36, WP-STDECR-R0621.xls (Kiefer); VP-T-1, pages 175-176.

¹⁰ Dr. Ingraham provides two alternative sets of rates: the first one assumes no DAL conversion while the second one assumes 75% DAL conversion. For the latter, he adjusts the "Averaged" Saturation flat cost to remove what he believes will be the cost savings associated with that conversion. Under that scenario, he develops a set of rates that arbitrarily assume that if 75% of the DALs leave the system, only 60% of his estimate of the total DAL cost will be saved (i.e., a cost elasticity of 1.25%). See NAA-T-2, pages 19-20, lines 15ff. For some reason, though, he does not recognize the city in-office or mail-processing DAL costs that are also averaged into the Saturation flat cost. Still, in both cases, his rate for Saturation on-piece-addressed flats covers the full cost of all DALs he believes will be left in the system in the test year.

1 piece-addressed Saturation flats cost less than the "Averaged" Saturation flat and
2 should therefore be priced at a lower level.

3 In all three cases, their proposed piece-rates for on-piece-addressed
4 Saturation flats still include the cost of DALs remaining in the test year and then the
5 DAL surcharge covers some of that same DAL cost again.¹¹ This is unacceptable
6 and results in the following:

- 7 ▪ On-piece-addressed Saturation flat mailers would be overcharged,
8 potentially harming their competitive positions.
- 9 ▪ Even if all DALs are eliminated as a result of the new surcharge, on-piece-
10 addressed Saturation flats would still cover the phantom DAL costs.
- 11 ▪ The on-piece-addressed Saturation flat rate would be skewed upward
12 relative to the rates for all other ECR on-piece-addressed mail categories
13 with which those mailers compete.
14 with which those mailers compete.
15 with which those mailers compete.
16 with which those mailers compete.

17 The correct approach, consistent with ECP principles, is to base the rate for
18 on-piece-addressed Saturation flats on their costs, excluding the costs for DALs they
19 do not use. This ensures that (1) mailers and their customers make the correct
20 decisions concerning postal usage, (2) mailers that switch from DALs to on-piece
21 addressing are properly rewarded, and (3) competitive relationships are not harmed.

22 **(2) The Correct Unit Cost For Saturation On-Piece-Addressed Flats**
23 **And Cost Savings From DAL Elimination**

24 The unit cost of on-piece-addressed Saturation flats (and the resulting
25 cost savings from eliminating DALs) depends upon how the flats that convert from
26 DALs to on-piece-addressing will be handled operationally. Mr. Kelley (USPS-T-30),
27 who developed the unit delivery costs by rate category in USPS LR L-67, provided

¹¹ The DAL surcharge does not cover all of the unit cost of a DAL, but that was done to moderate the impact on mailers that continue to use DALs.

1 Dr. Kiefer (USPS-T-36) with only the "Averaged" Saturation flat unit delivery cost that
2 assumes zero DAL conversion.

3 However, an on-piece-addressed Saturation flat (city plus rural) unit delivery
4 cost can be estimated based on (1) the unit delivery cost model in USPS LR L-67
5 and (2) the testimony of both USPS witnesses Kelley and Coombs. Mr. Kelley and
6 Ms. Coombs have testified that they believe all city carrier costs caused by DALs
7 can be saved if all DALs are eliminated and the flats are addressed on piece.¹²
8 Thus, the city carrier delivery cost for Saturation flats (excluding DALs) does not
9 change from that already estimated in USPS LR L-67.

10 More explanation for the rural delivery cost is required, though. On rural
11 routes, Saturation flats can be taken out as either (1) city-style-addressed flats or (2)
12 simplified address/boxholder flats. City-style-addressed flats cost substantially more
13 than boxholder flats. The unaddressed flats associated with DALs are considered
14 by the Postal Service to be boxholder mail. When DAL flats on rural routes convert
15 to on-piece-addressing, there is a concern that they will then become city-style
16 addressed flats (i.e., the cost of the flats will shift from low-cost boxholder to high-
17 cost city-style-addressed flats). This concern arises from mailer reaction to
18 legislation, passed a few years ago, that requires them to respect "do-not-deliver"
19 (DND) requests.¹³ As a result of that legislation, and without realizing that they were
20 actually increasing postal rural delivery costs (and thereby their own postal rates),
21 Saturation flat mailers have been switching away from simplified-address/boxholder

¹² USPS-T-44, page 13 (Coombs); and Tr. 12.3515-3516 and 12-3536-37 (Kelley).

¹³ The Deceptive Mail Prevention and Enforcement Act, PL 106-168.

1 flats to city-style addressed flats in order to respond to an extremely limited number
2 of DND requests.¹⁴

3 Recently, the Saturation Mailers Coalition and the Postal Service have been
4 discussing procedures whereby Saturation flat mailers can mail boxholder flats on
5 rural routes and still respond to the small number of DND requests on those routes.
6 Their intent is to enable Saturation flat mailers to mail on-piece simplified-
7 address/boxholder flats on rural routes and, thereby, avoid the unnecessary postal
8 cost associated with city-style addressing of those flats.¹⁵ The Postal Service has
9 recently stated to the SMC that it is committed to implementing such a procedure
10 that will enable mailers to identify DND addresses on rural routes so that they can
11 utilize simplified addressing.

12 Consequently, there is no reason to believe that the rural delivery cost of
13 Saturation flats, without the DALs, will differ from that already estimated in USPS LR
14 L-67. In other words, the combined city plus rural unit delivery cost for ECR
15 Saturation flats (minus DALs) in the USPS LR L-67 Unit Delivery Cost Model can be
16 used as the Saturation on-piece-addressed flat delivery cost.

17 In subsection E at the end of this section, I provide a set of ECR rates
18 whereby the Saturation flat piece rate is developed using the correct on-piece-
19 addressed Saturation flat delivery cost. The ECR rates are also based on the
20 conservative assumption that only 50% of Saturation DAL flats will convert to on-

¹⁴ Based on discussions with and information from SMC members, the number of DND requests on rural routes is a tiny fraction of total addresses, ranging from a high of about one DND per carrier route down to less than a hundredth of a percentage point of addresses.

¹⁵ See Mr. Gorman's response to NAA/SMC-T-2.

1 piece addressing in the test year (i.e., 50% of Saturation DALs will remain in the
2 TYAR system).¹⁶

3 As discussed above, the total TYBR cost associated with DALs is \$197
4 million. In developing the corrected rates, I assume 50% of those TYBR DAL costs
5 are saved (corresponding to the 50% of DAL volume that is eliminated), adjust them
6 to TYAR levels, and deduct them from the ECR attributable cost used in rate design.

7 **C. All ECR Flats Using DALs Should Also Pay The DAL Surcharge**

8 In this rate case, it has become apparent that some ECR High-Density mail
9 also use DALs. I estimate that 4.86% of Hi-Density non-letters use DALs.¹⁷
10 However, the ECR rate design witnesses have applied the DAL surcharge only to
11 Saturation DALs.¹⁸ This is clearly incorrect. To the extent that Hi-Density (and
12 Basic-Rate) flats also use DALs, they should also be subject to the same DAL
13 surcharge that applies to Saturation flats.¹⁹ This is the only reasonable way to
14 ensure that postal rates remain unbiased with respect to the price signals provided
15 to the saturation advertising market. In developing the rates presented below, I

¹⁶ This is an extremely low, conservative estimate. Mr. Gorman estimates that there will be substantial reduction in the number of DALs in the system, in excess of 70%. (VP/SMC-T1-6). In fact, just two mailers, ADVO and Harte-Hanks, who have both announced their intention to convert from DALs to on-piece-addressing, represent over 87% of the estimated number of DALs in the system in R2005. (See ADVO-LR-1, R05_DAL_Estimates.xls, Sheet 1, in R2005-1.)

¹⁷ Based on response to VP/USPS-2, revised 8/23/06, and calculated in SMC LR-1, AC-WP-STDECR.xls, inputs. The percentage is from a four-month period of March-June 2005.

¹⁸ See USPS Request for a Recommended Decision, Attachment A, page 21, note 7. The DAL surcharge unfairly applies only to Saturation mail.

¹⁹ Dr. Sidak agrees, response to ADVO/NAA-T1-6.

1 assume that the estimated TY High-Density DALs will be charged the 1.5-cent DAL
2 surcharge.²⁰

3 **D. The ECR Pound Rates Proposed By Dr. Ingraham And Mr. Mitchell Are**
4 **Excessive**

5 Because the ECR pound rate is critical to High-Density/Saturation mailers in
6 the saturation advertising market, it warrants serious consideration. The Postal
7 Service recognizes that the ECR pound rate is too high and Dr. Kiefer's rate
8 proposal reduces that rate very slightly. However, Dr. Ingraham uses the current
9 pound charge of 64.3 cents rather than the Postal Service's proposed 64.1 cents on
10 the ground that Kiefer offers no reason for changing the pound rate. Mr. Mitchell, on
11 the other hand, adopts the Postal Service's proposed pound rate, but then
12 substantially reduces all the piece rates because of his lower cost coverage
13 proposal. To this point, no witness has attempted to determine any quantitative
14 support for his proposed pound rate or to assess its impact on the market.

15 In ECR, the unit costs by shape and density level are based on total mail
16 processing plus delivery cost, adjusted to reflect origin-entry level. Those unit costs
17 by rate category, therefore, are an average of the costs for pieces below and above
18 the 3.3-ounce breakpoint. This means that rate category unit costs include the effect
19 of weight over 3.3 ounces for pound-rated pieces; but that cost effect should be
20 recovered only in the pound rate. Recognizing these facts is important to
21 understanding how the unit costs should be used in rate design and why the pound
22 rate is excessive.

²⁰To the extent the surcharge eliminates High-Density DALs from the system, the variable cost savings will exceed the revenue loss and the Postal Service contribution from ECR will be increased. For this reason, the adjustment to ECR rates is conservative.

1 Theoretically, when ECP principles are applied, (1) shape-density rates
2 should be designed to so that average piece revenue equals average piece cost
3 and, therefore, (2) each shape-density rate category generates the same average
4 piece contribution to institutional cost.²¹ Thus, the ECR pound rate should be based
5 on the cost of weight over the breakpoint and the ECR piece rate differentials should
6 be based on the unit cost differences among piece-rated pieces.

7 In practice, however, the pound rate has been arbitrarily selected and the
8 piece rate differentials have been developed using unit cost differentials that include
9 the cost impact of weight over the 3.3-ounce breakpoint. When the unit cost
10 differentials are passed-through 100%, as Mr. Mitchell and Dr. Ingraham have done,
11 those piece-rate differentials are overstated. This is particularly relevant to the letter-
12 flat piece rate differentials because, relative to letters, a considerable amount of flat
13 volume exceeds the breakpoint and pays the pound rate. When the pound revenue
14 from flats is included in the average flat revenue by rate category, the average
15 revenue difference between letters and flats substantially exceeds the average cost
16 difference.²² This is contrary to ECP principles and results in inefficient price signals
17 that are biased against flats and pound-rated mail.

18 Part of this rate design problem is caused by the 100% passthrough of cost
19 differences to piece rate differences. But, the major cause of the problem is that the

²¹ See, e.g., PB-T-1, pages 45-47, responses to VP/PB-T1-10 and -29.

²² This defect is hidden in Mr. Mitchell's conventional "presort tree" analysis because his "presort tree" compares minimum-per-piece rates by shape and density level to unit costs that include weight-related cost for pound-rated pieces. Thus, his "presort tree" analysis can falsely imply that a rate design is efficient when clearly it is not.

1 ECR pound rate is too high.²³ Because of the breakeven constraint, if the pound
2 rate is too high, then the piece rates, in combination, are too low.

3 Given the substantial impact of the pound rate on mailers in the saturation
4 advertising market, it is particularly important to try to estimate the marginal weight-
5 related cost for pieces over the breakpoint. An extreme estimate of the maximum
6 ECR marginal weight-related cost can be made by simply assuming that all
7 Saturation flat cost is weight-related. This yields an origin-entry pound cost of
8 roughly 45.7 cents.²⁴ Importantly, this estimate can be considered well above an
9 upper bound on the origin-entry pound cost. This is because the unit cost used
10 includes piece-related casing and delivery costs. Consequently, this estimate can be
11 considered well above an upper bound on the origin-entry pound cost.

12 By comparison, the current origin-entry pound rate of 64.3 cents selected by
13 Dr. Ingraham as well as the USPS proposed pound rate of 64.1 cents are excessive.
14 And, Mr. Mitchell's retention of the USPS proposed pound rate of 64.1 cents, while
15 reducing all other ECR piece rates, is completely unfounded and self-serving,
16 permitting the full rate level reduction he is proposing to flow-through only to piece
17 rates. The proposed pound rates clearly exceed an ECP-consistent rate.

²³ Mr. Mitchell recognizes this problem but still proposes 100% passthrough of the letter-flat unit cost differentials as well as a high pound rate. He implies that the 100% passthroughs are acceptable because weight-related costs are not large. (VP-T-1, pages 178-179, see especially footnote 65) Yet if that is the case (and I agree with him on this point), then he should have reduced the pound rate by at least the same amount as he reduced the piece rates.

²⁴ This estimate excludes DAL costs, adjusts the flat mail processing cost to reflect USPS response to POIR No. 21, Item 1, and uses the Saturation flat mail processing cost as described in the preceding footnote. This cost also includes origin-entry transportation cost. (SMC LR-1, AC-WP-STDECR.xls, Inputs, rows 86-110.)

E. ECR Rates Based On The Correct Saturation On-Piece Addressed Flat Cost And ECP Principles

The rates I have developed in SMC LR-1 (as shown in the table below) demonstrate the effect of using the correct unit cost for Saturation on-piece-addressed flats, recognizing the DAL cost savings, and lowering the pound rate slightly. The latter is not as low as it should be, but it is a reasonable step in the right direction. In developing these rates, I set piece rate differentials at 100% of unit cost differentials, even though this passthrough overstates the true cost differences among piece-rated pieces in the various ECR rate categories.²⁵ On the other hand, I have kept the dropship discounts at the lower USPS-proposed passthrough amounts, even though I agree with Postcom witnesses Glick and Pursley that 100% dropship passthroughs are more appropriate.²⁶

The resulting rates conservatively assume 50% conversion of DALs to on-piece-addressing in the test year and the following features:

- Use of the de-averaged High-Density and Basic-Rate letter and flat delivery costs
- Use of de-averaged High-Density and Saturation letter and flat mail processing costs²⁷

²⁵ As discussed in subsection D above, the unit costs used to derive the rate differentials are not precise because they reflect weight-related cost for pieces over the breakpoint. However, I do not have sufficient information to make any other decision concerning those piece-rate differentials. But I do know that the pound rate is exceedingly high and that it likely causes far more inefficiencies than the imprecision in the piece-rate differences.

²⁶ See POSTCOM-T-1 (Glick) and POSTCOM-T-2 (Pursley) and responses to USPS/POSTCOM-T2-2, -5, -6. In contrast to Mr. Glick's approach for Standard Regular, I believe that the 100% passthroughs in ECR should not be offset by a higher pound rate. The ECR origin-entry pound rate is too high already. However, strictly to ease the comparison to the other alternative sets of ECR rates, I simply accept the USPS-proposed dropship passthroughs.

²⁷ For High-Density/Saturation flats and letters, there is one mail processing unit cost estimate for each shape and that is then adjusted to origin-entry level. I de-average that dropship adjustment to reflect the average weight differences among these four shape-density categories. For flats, the de-

- 1 ▪ Utilization of the on-piece-addressed Saturation flat cost
- 2
- 3 ▪ The USPS-proposed DAL surcharge
- 4
- 5 ▪ A DAL surcharge applicable to all ECR flats that use DALs
- 6
- 7 ▪ Recognition of the Saturation DAL cost savings in ECR attributable costs
- 8
- 9 ▪ Retention of the Postal Service proposals with respect to Automation letters
- 10 and elimination of the DDU drop-ship discounts for all ECR letters
- 11
- 12 ▪ Retention of the original Postal Service ECR/NECR institutional cost
- 13 contribution amount²⁸
- 14
- 15 ▪ Retention of the equal Basic-Rate letter and flat piece rates for the Postal
- 16 Service's automation policy reasons²⁹
- 17
- 18 ▪ Development of parcel piece rates on the basis of the new information in
- 19 POIR No. 16, Item 1.³⁰
- 20

21 The rates were also designed to generate the same ECR/NECR contribution

22 to institutional cost as proposed by the USPS. Due to the DAL cost savings, these

23 rates generate a volume-variable cost reduction of over 3% due to the DAL cost

24 savings and a 216.6% cost coverage.

averaged mail processing costs exclude DAL costs and are adjusted to reflect USPS response to POIR No. 21, Item 1. See SMC LR-1, Wt_Adj_LR_L-84.xls, ECR Drpshp Adj.

²⁸ I do not attempt to develop any particular rate structure within NECR but simply adjusted a few NECR rates to ensure correct overall NECR vs. ECR rate level and total ECR/NECR contribution.

²⁹ Although the Basic-Rate letter piece rate is equal to the Basic-Rate flat piece rate, this does not mean that the High-Density and Saturation letter rates are too high, as Mr. Mitchell implies. (VP-T-1, page 122, lines 8-16). An adjustment is made so that the piece rates for the latter two rate categories are in proper relation to the piece rates of all other categories except that of the Basic-Rate letter.

³⁰ In order to develop a total ECR rate design, decisions must be made regarding parcel piece rates. The Saturation parcel rate is set at 9 cents more than the Saturation flat rate, based on a 100% passthrough of the estimated Saturation parcel mail processing plus delivery cost. The Basic/High-Density parcel piece rates were set at roughly 28 cents more than the corresponding flat rates but, even with the pound rate, they likely do not cover their costs. The parcel mail processing costs were adjusted per the USPS response to POIR No. 21, Item 1.

ECR Rates Using Corrected Saturation Flat On-Piece Address Cost And Recognizing DAL Cost Savings

| | Origin Minimum Per Piece | DBMC Minimum Per Piece | DSCF Minimum Per Piece | DDU Minimum Per Piece | Piece Rate for Pound- Rated | Origin Pound Rate | DBMC Pound Rate | DSCF Pound Rate | DDU Pound Rate |
|----------------|-----------------------------------|---------------------------------|---------------------------------|--------------------------------|--------------------------------------|-------------------------|-----------------------|-----------------------|----------------------|
| LETTERS | | | | | | | | | |
| Basic | 23.9 | 21.1 | 20.5 | | 11.5 | 60.3 | 46.7 | 43.5 | |
| High-Den | 17.6 | 14.8 | 14.2 | | 5.2 | 60.3 | 46.7 | 43.5 | |
| Saturation | 16.7 | 13.9 | 13.3 | | 4.3 | 60.3 | 46.7 | 43.5 | |
| | | | | | | 60.3 | 46.7 | 43.5 | |
| FLATS | | | | | | 60.3 | 46.7 | 43.5 | |
| Basic | 23.9 | 21.1 | 20.5 | 19.7 | 11.5 | 60.3 | 46.7 | 43.5 | 39.8 |
| High-Den | 19.6 | 16.8 | 16.2 | 15.4 | 7.2 | 60.3 | 46.7 | 43.5 | 39.8 |
| Saturation | 17.4 | 14.6 | 14.0 | 13.2 | 5.0 | 60.3 | 46.7 | 43.5 | 39.8 |
| | | | | | | 60.3 | 46.7 | 43.5 | 39.8 |
| PARCELS | | | | | | 60.3 | 46.7 | 43.5 | 39.8 |
| Basic | 52.4 | 49.6 | 49.0 | 48.2 | 40.0 | 60.3 | 46.7 | 43.5 | 39.8 |
| High-Den | 47.8 | 45.0 | 44.4 | 43.6 | 35.4 | 60.3 | 46.7 | 43.5 | 39.8 |
| Saturation | 26.5 | 23.7 | 23.1 | 22.3 | 14.1 | 60.3 | 46.7 | 43.5 | 39.8 |

SMC LR-1, AC-WP-STDECR.xls

Despite the fact that these rates still are not in full accord with ECP principles, they align ECR rates more closely to their underlying costs, as compared to the other alternatives. Thus, they have less bias and improve economic efficiency by providing better price signals on which ECR mailers and participants in the saturation advertising market can make decisions.

1 **II. VP WITNESS MITCHELL'S PRODUCT PRICING CONCEPT IS NOT**
2 **EFFICIENT RATEMAKING**

3 Essentially expanding upon his testimony on ECR rate design in R2005, Mr.
4 Mitchell (VP-T-1) proposes the use of what I term "Product Pricing" that involves
5 applying separate institutional cost markups for separate products within the same
6 subclass. He claims that this is required because ECR letters and ECR flats, though
7 both are included within the same subclass, are different products in terms of their
8 cost and demand characteristics.³¹ Consequently, he proposes an approach that
9 would effectively mark up, by the same percentage, ECR letter and flat "products" in
10 order to cover the ECR assigned amount of institutional costs. Apparently, he
11 believes this approach would improve the resource allocation efficiency of ECR
12 rates.

13 Further, he believes the markups should be applied to the most costly density
14 level for each "product" – the origin-entered Basic-Rate piece cost. In practical
15 terms, he would accomplish this by marking up the unit cost difference between
16 origin-entry Basic-Rate Flats and origin-entry Basic-Rate Letters by the subclass
17 markup percentage and assign this difference to the flat "product."³² Then, within
18 each shape grouping, he would use a modified Efficient Component Pricing (ECP)
19 approach to determine the rates for the lower-cost rate categories in each product
20 grouping.³³ In this rate proceeding, he proposes an ECR cost coverage of 177%

³¹ VP-T-1, page 118.

³² VP-T-1, page 178 and response to ADVOP/T-1-5.

³³ VP-T-1, page 178, responses to ADVOP/T-1-7 and -8.

1 but chooses to use 100% to mark up the origin-adjusted Basic-Rate letters and flats,
2 which he claims is less than optimum.³⁴

3 I have explained in Section I that his proposal to assign 100% of the full letter-
4 flat unit cost difference to the minimum per piece rates, while retaining a high pound
5 rate, clearly overstates the letter-flat piece rate differential and overstates the pound
6 rate that is applied mostly to flats. In this section I explain why I disagree with his
7 broader "Product Pricing" concept.

8 In summary, Mr. Mitchell's "Product Pricing" concept is rife with problems and
9 completely unacceptable:

- 10 ▪ His letter vs. flat "product" distinction is dependent upon simplistic and
11 incorrect assumptions regarding market and demand conditions. He ignores
12 far more appropriate "product" groupings within ECR, for example High-
13 Density/Saturation flats.
- 14 ▪ If resource allocation efficiency is the objective of his "Product Pricing"
15 concept, then flats, particularly High-Density/Saturation flats, should be
16 marked-up much less than letters. But, application of his concept would do
17 just the reverse.
- 18 ▪ When developing rates within a subclass, the accepted approach, as clearly
19 explained by Dr. Panzar in this proceeding, is to employ ECP principles that
20 tend toward equalizing unit contributions from all subclass pieces.³⁵ This
21 improves the productive/technical efficiency of subclass rates and avoids
22 biasing rates in favor of any one mailer-competitor. However, ECR flats
23 already make a larger unit contribution than do ECR letters and Mr. Mitchell's
24 "Product Pricing" concept would increase that letter-flat disparity even more.

25 As a result, Mr. Mitchell's "Product Pricing" concept and implementation would not
26 improve efficiency. This is particularly the case for High-Density/Saturation flat rates
27 where his approach would cause the highest percentage markups and highest unit
28
29
30

³⁴ VP-T-1, page 178.

³⁵ PB-T-1, pages 45-50 and response to VP/PB-T1-29.

1 contributions, sending extremely inefficient price signals to mailers, advertisers, and
2 private delivery carriers in the saturation advertising market. The approach would
3 bias postal rates for some mailer/competitors in favor of others. And, for Saturation
4 flat mail that makes the greatest contribution to institutional cost within ECR, it would
5 unnecessarily restrict growth and encourage further diversion to private delivery
6 alternatives.

7 **A. Correct Measures of Efficient Pricing Refute Mr. Mitchell's Claim Of**
8 **Discriminatory Rates**

9 **(1) Correct Efficiency Measures**

10 Since Mr. Mitchell attempts to improve the economic efficiency of ECR
11 rates, it is appropriate to review how an improvement can be measured. With
12 respect to rate efficiency, there are two accepted economic ratemaking concepts
13 that apply:

- 14 ▪ **Ramsey Pricing.** Ramsey pricing is used to allocate institutional cost
15 contribution among the various subclasses on the basis of postal own-
16 price elasticities and cross-price elasticities. In this approach, subclasses
17 that have high own-price elasticities should have a lower mark-up than
18 those with lower own-price elasticities. This results in efficient resource
19 allocation by "...maximizing the sum of *economic profits* accruing to
20 industry participants plus the *consumers' surplus* accruing to final
21 consumers."³⁶ Mr. Mitchell's "Product Pricing" concept appears to be an
22 intra-subclass version of Ramsey Pricing.³⁷
23
- 24 ▪ **Efficient Component Pricing.** ECP is used to develop rates within a
25 subclass by setting rate differentials among various rate categories on the
26 basis of cost differentials. This results in productive or technical efficiency
27 whereby mailers can minimize their end-to-end distribution costs by
28 making their selections among the various postal services and products

³⁶ PB-T-1, page 47, lines 13-16; see also Mr. Mitchell's extensive discussion in VP-T-1, pages 42-53.

³⁷ This is clear from Mr. Mitchell's preoccupation with efficiency of resource allocation and markups over cost. See VP-T-1, pages 42-53 and response to ADVO/VP-T1-10.

1 on the basis of their actual cost differences.³⁸ In circumstances where
2 mailers within the subclass compete among themselves, the use of ECP
3 principles can contribute to dynamic efficiency by avoiding rates that are
4 biased for or against particular competitors. Mr. Mitchell uses modified
5 ECP principles to develop piece rates within each of his "product"
6 groupings.
7

8 As discussed by Dr. Panzar, Ramsey Pricing requires the use of precise cost
9 and demand information while ECP requires only precise information on costs of the
10 various rate elements and categories. For ECR, there is only one postal own-price
11 elasticity, developed by the USPS for use in determining TYBR and TYAR subclass
12 volumes. That own-price elasticity should be considered a volume-weighted average
13 of the price elasticities of each ECR mailer. With respect to costs, however, there is
14 cost information for many of the ECR rate categories, although the information is not
15 as precise as ECP requires.

16 When Ramsey Pricing is correctly implemented, subclasses (or products) with
17 higher postal-price elasticities have lower cost markups than those with lower postal-
18 price elasticities.³⁹ When ECP is correctly implemented within a subclass, all rate
19 categories within a subclass have the same per piece cost contribution.⁴⁰ These are
20 the appropriate benchmarks against which I review Mr. Mitchell's proposed ECR rate
21 impacts on efficiency.

22 **(2) Mr. Mitchell's Rate Discrimination Claim Is Wrong**

23 To support his "Product Pricing" proposal, Mr. Mitchell chooses a third
24 benchmark. He cites Dr. George Stigler to imply that rates for two products "like

³⁸ PB-T-1, pages 45-47.

³⁹ PB-T-1, page 48, lines 1-11.

⁴⁰ PB-T-1, pages 46-47, lines 3ff; see also response to VP/PB-T1-29.

1 letters and flats, in the same subclass" are discriminatory if they do not have equal
2 price to cost ratios.⁴¹ However, Dr. Stigler recognized that: "Some economists
3 prefer the slightly different definition: prices are discriminatory if the difference in
4 price is not equal to the difference in marginal cost."

5 Actually, there are a number of highly respected economists in the regulated
6 ratemaking field, in addition to Dr. Panzar, that prefer that alternate definition, as it
7 relates to intra-subclass rates. In *Principles of Public Utility Rates*, Dr. James
8 Bonbright et al. note obvious deficiencies in Stigler's preferred definition.⁴²

9 . . . the proportionality [revenue to cost] definition has obvious deficiencies.
10 For it would embrace some rate relationships that have the same distorting
11 influences in affecting consumer choice among alternative services which
12 economists associated with the practice of discrimination. . . .

13
14 One of the major objectives of sound public utility ratemaking policy is that of
15 bringing rates for substitute services into proper relationship, so that
16 consumers will not be led to make an economically distortionate choice
17 between alternatives. . . . But as long as rates are . . . proportional to marginal
18 costs, the price differentials will exceed the cost differences – an excess
19 which may lead many consumers to make an uneconomic choice of the less
20 costly alternative. Recognition of this situation has led some writers to reject
21 the proportionality definition of nondiscriminatory rates in favor of a cost-
22 differential definition.

23
24 Further, Dr. Alfred Kahn in *The Economics of Regulation* concurs but
25 provides a slightly different perspective on the appropriateness of rate differences
26 equaling cost differences. It is particularly relevant where mailers in various ECR
27 categories compete on virtually a daily basis with each other.⁴³

⁴¹ VP-T-1, pages 105-106.

⁴² James C. Bonbright, Albert L. Danielsen, David R. Kamerschen, *Principles of Public Utility Rates*, Second Edition, Public Utility Reports, Inc., Arlington, Virginia, 1988, pages 524-525.

⁴³ Alfred E. Kahn, *The Economics of Regulation*, The MIT Press, Cambridge, Massachusetts, 1988, Volume I, page 174. "Natural entitlement" means having access to a natural advantage such as ". . . homeowners in the process of deciding on a new heating system, who have the opportunity to install

1 Where the customers are in direct competition with one another *and* the
2 favored buyers enjoy no such "natural entitlement" to the lower rates, the
3 rates charged them should differ only by the absolute amount of the
4 differences in the incremental costs of serving them.

5
6 Thus, Mr. Mitchell's implication that ECR letter and flat rates are unfairly
7 discriminatory if they do not have equal price-to-cost proportions is simply wrong.

8 **B. Mr. Mitchell's Letter And Flat "Products" Are Not Based On Real-World**
9 **Market And Demand Conditions**

10 **(1) Mr. Mitchell's Letter and Flat "Products" Are Constructed To Fit**
11 **His Purpose**

12 Mr. Mitchell provides a very vague and inconsistent explanation of
13 what he means by separate "products."⁴⁴

14 . . . if two categories tend to look like separate products, to be processed in
15 separate mailstreams, to have different costs, to be purchased in markets that
16 are arguably different, and to have relatively low cross elasticities, they tend
17 to be separate products.

18
19 Mr. Mitchell's "Product Pricing" concept is an attempt to apply the simple
20 inverse elasticity (IER) rule of Ramsey Pricing to letter and flat "products" in the ECR
21 subclass.⁴⁵ Since Ramsey Pricing applies to subclass markups, he needs to
22 position his letter and flat "products" so that they appear to have sufficient cost-
23 based and market-based distinctions of the kind that warrant separate subclass
24 treatment. Unfortunately, although he claims that they serve different markets, he
25 needs to also assume that his two "products" each have the same average ECR

oil at favorable rates, or by large users of communications services who have a choice of installing their own, private microwave systems." (page 174) One could claim that High-Density/Saturation flats have access to a natural advantage – the availability of private delivery alternatives.

⁴⁴ Response to ADVO/VP-T1-6(a).

⁴⁵ The IER uses only own-price elasticities and assumes that there are zero cross-price elasticities.

1 postal price elasticity (and little cross-price elasticity) because he wants to apply the
2 IER equal cost markups to each.⁴⁶ This is where his construct breaks down.

3 **(2) Mr. Mitchell Ignores Real-World ECR Letter And Flat Market And**
4 **Demand Information**

5 Mr. Mitchell's product groupings and price elasticity assumptions show
6 that he either does not understand or ignores the available market and demand
7 information on ECR mail.⁴⁷ There is information in this case that sheds additional
8 light on the relative market and demand characteristics of mail within the ECR
9 subclass:

- 10 ▪ Mr. Mitchell presents information that shows that Saturation flats, in particular,
11 and ECR flats in general have greater price elasticity than other mail in the
12 ECR subclass. He observes that private delivery is an available alternative for
13 many Saturation flat mailers, that much of the mail that is a candidate for
14 being handled by alternative carriers weighs more than 3.3 ounces or has
15 more than 24 pages (e.g., catalogs), and that many ECR letters do not have
16 private delivery available to them.⁴⁸ Moreover, Mr. Pete Gorman in this case
17 also notes the extensive use that Saturation Shopper publications (i.e., flat
18 shapes) make of private delivery.⁴⁹
- 19 ▪ There is a strong rivalry between ECR Saturation and High-Density Flat
20 mailers for advertising customers and such customers can easily shift
21 between a Saturation mail program and a newspaper TMC program. NAA
22 witness Ingraham also explains the competition between Saturation and High-
23

⁴⁶ Responses to ADVO/VP-T1-10 and -11. If the "products" do not have the same price elasticity and/or if there is cross-price elasticity, then Mr. Mitchell cannot apply equal percentage markups to them and still claim that he is improving resource allocation efficiency. Separately, please note that in response to ADVO/VP-T1-11(d) which questions his assertions of low ECR letter-flat cross-price sensitivities, he cites USPS witness Thress's Standard letter-flat share equations do not recognize any cross-price sensitivities but there are no letter-flat share equations for ECR.

⁴⁷ In actuality, Mr. Mitchell admits that he knows little about the market and demand conditions for ECR mail. Tr.25.8952, -8954, -8961.

⁴⁸ VP-T-1, pages 57 (lines 1-2), 59-60, 82 (lines 22-26), 84-85, and response to ADVO/VP-T1-16. Despite this information, Mr. Mitchell claims that he has no information on "comparative price sensitivities" of ECR letters and flats. Response to ADVO/VP-T1-11 (a-b).

⁴⁹ SMC-T-1, page 4 (lines 13-15) and response to SMC-T1-3(d) and -4.

Density flat rate categories in the Total Market Coverage market.⁵⁰ This also supports the notion of greater price elasticity for flats than for letters.

- ECR letter-shaped mail sometimes becomes a rated "flat" by exceeding the 3.3-ounce breakpoint and sometimes also exceeding the 3.5-ounce automation-compatibility breakpoint. Even Valpak mails letter shapes that exceed these breakpoints.⁵¹ In R2005, Mr. Godfred Otuteye explained that Money Mailer, the second largest Saturation letter mailer in the system (after Valpak) often exceeds those breakpoints and its competitive positioning is very much affected by Saturation flat rates.⁵²
- Mr. Pete Gorman from Harte Hanks states that Saturation letters are part of the saturation mail industry that also includes Saturation and High-Density flats.⁵³ Within this industry, these mailers compete with each other for many of the same advertisers (e.g., local retailers and service companies).⁵⁴ And, conversely, local retail and service companies may consider both letter and flat mail programs as potential means to deliver their advertising.

Accordingly, three important conclusions can be made from the above. First,

Mr. Mitchell's division of ECR mail into letter "products" and flat "products" is extremely simplistic and likely would not fit the criteria for separate subclass treatment.⁵⁵ Second, saturation advertisers make choices among ECR High-

⁵⁰ NAA-T-2, pages 2-3; response to NAA/SMC-T1-3. Mr. Mitchell also recognizes this strong rivalry. Tr 25.8954-55, -8992-93 and responses to ADVO/VP-T1-17 and -18.

⁵¹ Response to ADVO/VP-1; 7.2% of Valpak's letter coupon program mail were over the 3.3-ounce breakpoint, 4.6% were over 3.5 ounces.

⁵² See ADVO-RT-2 in R2005. Mr. Otuteye also offers similar testimony in this case in PostCom-T-8.

⁵³ He describes this industry as referring to mailers involved in "the assimilation and distribution of advertising matter from numerous retailers, service companies, and entrepreneurs for mailings to consumer households, typically targeted by zip code in a manner that allows each advertiser to select and reach potential customers within their unique service areas, often within a few-miles' radius of their business locations." SMC-T-1, page 3 (lines 14-18), and response to NAA/SMC-T1-3.

⁵⁴ Response to NAA-T-3(i).

⁵⁵ When asked whether all ECR letters are one product and, separately, whether all ECR flats are one product, Mr. Mitchell answered both: "Basically, yes." However, he then admitted that "a case could be made for giving separate recognition in rates" to saturation letters and saturation flats "for competitive reasons." Responses to ADVO/VP-T1-7 and -8, Tr. 25.8950.

1 Density/Saturation letters and flats.⁵⁶ Third, the high degree of competition between
2 High-Density and Saturation flats and between High-Density/Saturation flat postal
3 service and alternative delivery services means that the own-price elasticities of
4 High-Density/Saturation flats are higher than those of any ECR letter category.⁵⁷ Mr.
5 Mitchell is wrong to assume that ECR flats and letters have the same own-price
6 elasticity and he is wrong to assume that ECR High-Density/Saturation letters and
7 flats do not compete in the same market against each other.

8 **(3) High-Density/Saturation Flats Warrant Separate Product**
9 **(Subclass) Treatment**

10 By contrast to Mr. Mitchell's contrived product groupings, for purposes
11 of separate (subclass) institutional cost markups, there is at least one, far more
12 logical grouping within ECR that could be considered as a separate "product." This
13 consists of High-Density/Saturation flats. They clearly have very similar postal cost
14 characteristics and they serve the same saturation advertising market. They have
15 considerable cross-price elasticities, high own-price elasticities, and have a viable
16 alternative to postal delivery. They differ substantially from Basic-Rate mail and
17 differ less substantially from High-Density/Saturation letters. If Mr. Mitchell's
18 "Product Pricing" concept is accepted by the Commission, it should, at a minimum,
19 consider High-Density/Saturation flats as a separate "product" warranting separate
20 markups. Far better from an efficiency standpoint, if there are any ECR "products"
21 that the Commission believes warrant separate markups, they should be converted

⁵⁶ Mr. Mitchell agrees. Tr. 25.8951-53, -8953, -8956-57, -8977.

⁵⁷ Mr. Mitchell also agrees that there are Saturation-to-High-Density flat program mail cross-overs that are influenced by postal rate differences. Tr. 25-8992-93, -9030-33. He also appears to recognize that there are relatively few, if any, Saturation letter mailers that use alternate delivery services. Tr.25.8973.

1 into separate subclasses where their true costs and market/demand characteristics
2 can be explicitly recognized.

3 **C. Mr. Mitchell's "Product Pricing" Concept Will Not Improve Rate**
4 **Efficiency**

5 Mr. Mitchell develops a set of ECR rates based on his proposed 177% cost
6 coverage. However, he does not fully implement his proposed "Product Pricing"
7 approach. Instead of marking-up the origin-entered Basic-Rate letter and flat unit
8 costs by 177%, as he claims is appropriate, he just passes through 100% of the cost
9 difference between the two unit costs to their minimum-per-piece rate differences.

10 Mr. Mitchell then claims that letters are not receiving favorable treatment
11 under his rate design and uses, as proof, the following comparison of letter and flat
12 TYBR coverages at the origin-entered Basic-Rate and origin-entered Saturation
13 levels for his proposed ECR rates:⁵⁸

| | ECR Letters | ECR Flats |
|---------------------------|-------------|-----------|
| Origin-Entered Basic-Rate | 193.1% | 194.5% |
| Origin-Entered Saturation | 290.8% | 232.5% |

14
15 These comparisons, however, provide no useful information on the bias or efficiency
16 of Mr. Mitchell's rates for two reasons. First, regardless of which efficiency
17 benchmark is selected, he does not make the correct comparison between cost and
18 revenue. Second, as discussed above, his efficiency benchmark of equal cost
19 coverages is wrong.

⁵⁸ VP-T-1, page 182.

(1) Correct "Product" Cost And Revenue Comparison

If one wants to compare cost coverages (markups) or unit contributions for individual "products," the comparisons should be based on total product revenue and total product variable cost, not on the cost and revenue from one rate element/category within each "product," as Mr. Mitchell has done.⁵⁹ The following shows the correct ECR letter and flat "product" comparisons using Mr. Mitchell's proposed ECR rates.⁶⁰

**Cost Coverage And Unit Contributions From VP-Proposed Rates –
100% Letter-Flat Passthroughs To Piece Rates**

| | Cost Coverage | Unit Contribution |
|-------------------------------|----------------------|--------------------------|
| ECR Letters | 182.9% | 5.7 cents |
| ECR Flats | 188.5% | 8.1 cents |
| Hi-Density/Saturation Letters | 238.8% | 6.1 cents |
| Hi-Density/Saturation Flats | 239.5% | 8.5 cents |

(2) Comparison To The Correct Efficiency Benchmark

The greater cost coverage and higher unit contributions from flats indicate that Mr. Mitchell's proposed rates diverge considerably from both the Ramsey Pricing/IER and the ECP benchmark. As discussed above, under Ramsey Pricing/IER, more price-elastic products should have lower markups/coverages compared with less price-elastic products. This means ECR flats and particularly ECR High-Density/Saturation flats should have lower markups than ECR letters. The reverse is true of Mr. Mitchell's rates.

⁵⁹ As discussed in ADVO-RT-1 (pages 13-17) in R2005-1, a "product's" total costs and total revenues must be compared. Mr. Mitchell compares only total costs of origin-entry letters and flats.

⁶⁰ See SMC LR-1, VP-R06LR-L-84Product_Costs.xls, VP Results w-DALs. The costs include all transportation, mail processing and delivery costs. They also include all DAL costs and revenues. If there is a conversion of roughly 75% of DALs in the test year, then Mr. Mitchell's flat rates generate even higher flat cost coverage. Mr. Mitchell's incorrect treatment of the Saturation flat on-piece-addressed rate is discussed in Section I above.

Under the ECP approach, each rate category should have an equal unit contribution. However, Mr. Mitchell's rates clearly bias postal rates in favor of letter competitors and to the benefit of private delivery carriers. Clearly, Mr. Mitchell's proposed flat rates include a much larger unit contribution. In large part, the bias against flat rates is caused by Mr. Mitchell's proposal to retain a high pound rate while decreasing the piece rates considerably.⁶¹

Finally, to show the even greater distortions that implementation of Mr. Mitchell's broader concept would generate, I have for illustrative purposes adjusted his rate design to reflect his insistence that the ECR cost coverage of 177% (rather than just 100%) should be applied to both the origin-entered Basic-Rate letter and flat unit costs. If that were done, the resulting coverages and unit contributions would be as follows.⁶²

**Cost Coverage And Unit Contributions From VP-Proposed Rates --
177% Letter-Flat Passthroughs To Piece Rates**

| | Cost Coverage | Unit Contribution |
|---------------------------------|----------------------|--------------------------|
| ECR Letters | 162.4% | 4.3 cents |
| ECR Flats | 192.9% | 8.5 cents |
| High-Density/Saturation Letters | 206.9% | 4.7 cents |
| High-Density/Saturation Flats | 246.1% | 8.9 cents |

These figures assume that all DALs and DAL revenues remain in system.

⁶¹ As noted in Section II, Mr. Mitchell's proposed ECR pound rate is excessive. To investigate the impact of that pound rate, his rate design was adjusted to reduce the pound rate from 64.1 cents to 55.0 cents. Making that one change, and letting the rest of his rate design accommodate it, resulted in the following:

| | Cost Coverage | Unit Contribution |
|-------------------------------|----------------------|--------------------------|
| ECR Letters | 187.2% | 6.0 cents |
| ECR Flats | 185.6% | 7.9 cents |
| Hi-Density/Saturation Letters | 245.4% | 6.4 cents |
| Hi-Density/Saturation Flats | 237.7% | 8.4 cents |

These should be compared to Mr. Mitchell's rates with 100% passthroughs. It shows that lowering the pound rate improves rate efficiency considerably, under either measure, but still not as much as it can be improved. VP-R06LR-L-84Product_Costs.xls, VP Results w-DALs&Lower Lb Rate.

⁶² VP-R06LR-L-84Product_Costs.xls, VP Results w-DALs 177%.

1 This last set of results shows that Mr. Mitchell's full-blown concept yields even
2 greater coverage and unit contribution from the so-called "flat products" and even
3 less from the "letter products" than compared to his actual rate proposal. Using
4 either the Ramsey Pricing (coverage) or ECP (unit contribution) benchmark, Mr.
5 Mitchell's full "Product Pricing" implementation generates even greater bias and
6 economic inefficiency than evident in his actual proposal.

7 Clearly Mr. Mitchell's full-blown "Product Pricing" concept, as applied to separate
8 ECR letter and flat "products," does not improve rate efficiency and, when compared
9 to Mr. Mitchell's flawed partial concept implementation, would further reduce rate
10 efficiency by:

- 11 ▪ Providing incorrect price signals to mailers, advertisers and private delivery
12 carriers,
- 13 ▪ Biasing rates for some mailer/competitors in favor of others,
- 14 ▪ Increasing rates for those portions of the subclass that are lowest cost and at
15 most risk for diversion to private delivery alternatives, and
- 16 ▪ Encouraging inefficient entry of competitors to the Postal Service.
- 17
- 18
- 19

1 **III. VP WITNESS HALDI'S ASSERTIONS ON THE IMPACT OF CITY CARRIER**
2 **CAPACITY CONSTRAINTS ARE UNREALISTIC**

3 Valpak witness Haldi (VP-T-2) claims that the city delivery cost of Saturation
4 flat mail is too low and the delivery cost of Saturation letter mail has been forced
5 upward because of the presence of Saturation flat mail. He implies that city carriers
6 are reaching or have reached their capacity to carry out to the street what are called
7 "sequenced bundles:" mailer-sequenced Saturation mail that has not been cased but
8 simply taken to the route for delivery. Based on that implication, Dr. Haldi argues
9 that:⁶³

- 10 ▪ City carriers may have no further low-cost "sequenced bundle" capacity to
11 handle additional (marginal) Saturation flat mailings so those mailings will be
12 handled as higher-cost cased flats at least a portion of the time.
- 13 ▪ The Postal Service is "bumping" all Saturation letters to DPS processing
14 because it wants to reserve its low-cost "sequenced bundle" capacity for
15 Saturation flats.

16
17
18 Dr. Haldi does not try to quantify the supposed "understatement" of Saturation
19 flat city delivery cost but he makes it appear large and he implies that Saturation
20 letter costs will increase as a result of being DPSed.

21 Dr. Haldi greatly exaggerates the capacity constraint problem and
22 misconstrues the reason for DPSing Saturation letters. First, the Postal Service has
23 sufficient "sequenced bundle" capacity to handle all Saturation mail suitable for such
24 handling. Saturation flats will continue to be carried out as "sequenced bundles."
25 Second, many Saturation letters are not suitable for "sequenced bundle" treatment
26 because of their physical characteristics, so the Postal Service has appropriately
27 decided to DPS as many of them as possible. This is the low-cost procedure for

⁶³ VP-T-2, pages 56-73.

1 Saturation letters. Although there may be some Saturation letters that could be
2 handled as "sequenced bundles," it would be extremely inefficient for the Postal
3 Service, at the plant, to try to determine which Saturation letters were suitable and
4 which were not; so the most efficient decision is to DPS all of them. The Postal
5 Service decision to DPS Saturation letters has nothing to do with city carrier
6 "sequenced bundle" capacity or the presence of Saturation flats. More importantly,
7 however, as more of Saturation letters are DPSed, their average delivery cost
8 should decline from its current level.

9 **A. The "Sequenced Bundle" Capacity Limitations**

10 City carriers usually have only two categories of mail to deliver: (1) DPSed
11 letters provided to the carriers as they leave for their route and (2) non-DPSed
12 letters and flats that have been cased together in a vertical flat case by the carrier.
13 However, the mechanism for delivering this mail differs according to the type of
14 delivery sections the carriers serve. When delivering to foot and park-and-loop
15 delivery sections where the carriers walk to multiple delivery points, they carry each
16 category of mail as a bundle while they walk, pulling mail for each delivery point from
17 the bundles as needed. When delivering to other delivery sections (curbline,
18 dismount, centralized, NDCBU), the carriers simply pull the mail from trays in their
19 vehicle when they arrive at a delivery point (or set of delivery points). In some
20 cases, they may take trays to a delivery point with multiple addresses (e.g., indoor
21 centralized or NDCBU deliveries). Most carriers have more than one type of delivery
22 point and more than one type of delivery section on their routes.

1 For foot and park-and-loop delivery sections, carriers may carry a third bundle
2 of mailer-sequenced (uncased) Saturation mail. Due to labor agreement rules,
3 though, they may not be required to carry more than three bundles of mail while
4 walking. For other delivery sections, where mail is pulled from trays for delivery, the
5 labor agreement specifies no constraint on the number of mailer-sequenced,
6 uncased mailings the carriers may deliver.

7 **B. Dr. Haldi's Marginal Flat Delivery Cost Concern Is Exaggerated**

8 Due to the third-bundle rule for foot and park-and-loop delivery sections and
9 the limit on the number of trays a motorized carrier can access from while still in his
10 vehicle, Dr. Haldi implies that city carriers have reached or are on the brink of
11 reaching their capacity to handle low-cost "sequenced bundles" and that any
12 marginal (new) Saturation flat mailing will be cased at the higher cased flat cost.⁶⁴
13 However, unlike in his R2005 testimony, Dr. Haldi does not directly try to estimate
14 how much higher the Saturation flat city delivery cost should be. That is left to the
15 imagination.⁶⁵

16 What Dr. Haldi chooses to ignore is the available evidence provided by the
17 Postal Service. This evidence was provided in both this case and in R2005-1 and,
18 since much of it was discussed in the last case and is summarized below.

⁶⁴ VP-T-2, pages 63, 65, 66.

⁶⁵ VP-T-2, pages 69-80.

1 **(1) USPS Techniques To Expand "Sequenced Bundle" Capacity**

2 The USPS has considerable capacity to handle all mail that, in its
3 opinion, can be most efficiently handled as "sequenced bundle" mail:

- 4
- 5 ▪ For the curblin, centralized/cluster box, and dismount deliveries that
6 account for over 60% of all city delivery points,⁶⁶ city carriers can take out
7 multiple Saturation mailings as "sequenced bundle" mail.⁶⁷
 - 8
 - 9 ▪ For park-and-loop and foot deliveries, city carriers can take out more than
10 one Saturation flat mailing when they collate them into a single
11 "sequenced bundle."⁶⁸ However, they do not usually carry Saturation
12 letter mailings out as "sequenced bundles" because, physically, some of
13 them (depending upon their dimensions and weight) may be difficult to
14 handle that way.⁶⁹
 - 15
 - 16 ▪ For all deliveries, city carriers, if they have too many Saturation mailings to
17 handle as "sequenced bundles" on one day, may defer some of those
18 mailings to the next day or two.⁷⁰

⁶⁶ R2005-1, USPS witness Lewis identified 55.7 % from curblin and centralized/cluster box deliveries. (USPS-RT-2, page 5) The percentage of dismount deliveries was not separately provided in that response. However, if 30% of deliveries on dismount routes were considered dismount, then another 5% of delivery points would be included in the above, making the figure over 60%. See also response to VP/USPS-T30-21 in R2005-1.

⁶⁷ VP-USPS-T44-5, -9, -17; Tr. 13.3746, 3750, 3753-3754; in R2005, see Tr.6.2420-2421 and 11.5995-5998 (Lewis). Dr. Haldi questions this ability and implies that only one "sequenced bundle" mailing may be taken out on such delivery sections (VP-T-2, pages 63-66). But he ignores the available evidence and exaggerates. Carriers have considerable flexibility in how they organize the mail within the trays they use for such delivery sections. Tr. 13.3745, 3746, 3747, 3751, 3752-53 (Coombs).

⁶⁸ USPS-T-44, page 13, responses to VP/USPS-T44-3, -13; in R2005, see Tr.11.5976. Valpak has questioned the ease of collating Saturation flats that may not cover every delivery point on a route. However, Ms. Coombs has explained that there are only rare occasions where a carrier may be unable to collate two sets of Saturation flats. This is because carriers know their delivery addresses and know the lists used by the program mailers in their area. Tr. 13.3757-3758.

⁶⁹ In R2005, USPS witness Lewis explained that it is difficult for city carriers to handle two letter bundles on foot and park-and-loop delivery sections and that carriers and their supervisors generally avoid carrying two letter bundles for such deliveries. R2005, USPS-RT-2, pages 3-4, Tr.11.5951-5954, 5975-5976, -5990, and USPS response to ADVO/USPS-9. See also responses to VP/USPS-T44-8, -9, -22 and -33 in this proceeding.

⁷⁰ Tr. 13.3758 and response to VP-T44-3. In R2005, response to ADVO/USPS-8 and Tr. 6.2429-6430 in R2005. There is also considerable coordination between the USPS and Saturation mailers, particularly those that mail on a regular, high frequency basis. And, some Saturation mailers accept and account for the fact that there may be not just a two-day delivery window but a three-day window for their mail, depending upon drop time and coordination arrangements.

1 **(2) Evidence Of Capacity To Handle Extra Bundles**

2 USPS witness Coombs in this case has emphasized repeatedly that
3 city carriers only rarely have to deliver more than one Saturation flat mailing on a
4 particular day because of the ability to defer such mailings two to three days.⁷¹ Her
5 testimony is also corroborated by the R2005 rebuttal testimony of USPS witness
6 Lewis.

7 In R2005, Mr. Lewis conducted an informal field survey to estimate the actual
8 number of delivery days when city delivery carriers might have to deliver more than
9 one Saturation mailing, regardless of shape.⁷² Based on his results (that assumed a
10 DAL mailing was two separate "full coverage" mailings), Mr. Lewis estimated that
11 23% of the office-delivery-days had more than one "full coverage [Saturation]
12 mailing." Separately, he also noted that less than 44.3% of delivery points in the city
13 carrier system were on foot or park-and-loop delivery sections.⁷³ Thus, he estimated
14 that: "system-wide, the city delivery network appears to experience a constraint in its
15 ability to handle sequenced full-coverage mailings as additional bundles only about
16 10% of the time (44.3% of delivery points times 23% of days)."⁷⁴

⁷¹ Responses to VP-T44-3, -13, -17, -18, -21; Tr. 13.3750-3750.

⁷² USPS-RT-2 and LR K-150 in R2005. His data showed that in three weeks of data collection at seventy-eight delivery offices scattered through the country, there were 791 "full coverage mailings" (i.e., Saturation mailings) over 1,328 office-delivery days. Of those 1,328 office-delivery days, 310 had more than one "full coverage mailing" that required delivery on the same day. Of those 310 days, 230 days had only a DAL-plus-wrap mailing that was considered as two "full coverage mailings" requiring delivery on the same day. The remainder of the 310 office-delivery days had two or more single-piece and/or two-piece mailings that had service commitment dates requiring them to be delivered on the same day. His result that 23% of office-delivery-days with more than one Saturation mailing figure is calculated as 310/1,328.

⁷³ See footnote 66 above.

⁷⁴ R2005, USPS-RT-2, page 8.

1 It should be noted that when Mr. Lewis used the term "constraint," he meant
2 that the carrier has two Saturation mailings to deliver to either foot or park-and-loop
3 deliveries and he can only use three bundles. Yet, as explained repeatedly by Ms.
4 Coombs and Mr. Lewis, in those circumstances, the carrier may be able to collate
5 the two mailings, if they are both flat-shaped. Thus, based on Mr. Lewis's data, the
6 potential for casing a marginal (new) Saturation flat mailing because of a carrier's
7 "sequenced bundle" capacity limitation is small.⁷⁵

8 **C. DPSing Of Saturation Letters Is Not Caused By Saturation Flats**

9 Dr. Haldi complains that the USPS proposal to eliminate the discount for
10 destination entry of ECR letters at DDUs will lead to a consistently higher delivery
11 cost for Saturation letters. He blames this on the Postal Service attempt to reserve
12 all "sequenced bundle" capacity for Saturation flats.⁷⁶ He misunderstands DPSing
13 and misconstrues this issue.

14 **(1) Saturation Letters Are Not Suitable For "Sequenced Bundle"**
15 **Treatment On Many Delivery Sections**

16 As mentioned above, Saturation letters do not generally have the
17 appropriate physical characteristics to make "sequenced bundle" treatment efficient
18 on foot and park-and-loop delivery sections. Their relatively small dimensions and
19 light weights make them difficult for foot and park-and-loop carriers to hold firmly in
20 the crook of their arm, as they do with the physically larger and heavier Saturation

⁷⁵ In R2005, using the 2002 CCSTS data, I also provided evidence that the number of delivery days where a carrier might face a "third bundle" constraint is relatively small. See ADVO-RT-1, pages 33-35, and ADVO LR-2.

⁷⁶ VP-T-2, pages 68ff.

1 flats. And, holding the extra letter bundle between the fingers of their hand, along
2 with the DPS bundle, is a much more difficult technique. Thus, for such delivery
3 sections, carriers would likely case Saturation letters.⁷⁷ For Saturation letters
4 delivered to those segments, DPSing will reduce their delivery costs

5 For other types of delivery sections, though, the physical characteristics of
6 letters do not prevent them from being carried as "sequenced bundles" in the case of
7 curblin, dismount, and centralized delivery sections. To that extent, Saturation
8 letters, when appropriate, have benefited from the low "sequenced bundle" costs,
9 consistent with USPS statements on this matter.⁷⁸

10 (2) Saturation Letters Will Benefit From Increased DPSing

11 This "sequenced bundle" treatment for Saturation letters, however, will
12 decline as more zones are converted to DPS. But this has nothing to do with the
13 presence of Saturation flats or city carrier "sequenced bundle" capacity limitations.
14 Rather, it is due to the fact that DPSing of Saturation letters is the lowest-cost option
15 on many city delivery sections and on all rural routes. DPSing is an "all or nothing"
16 approach for any one route (and likely for any one zone). It would be extremely
17 inefficient for either a processing plant or the DDU to attempt to segregate
18 Saturation letters by type of route and delivery section in order to send those on foot
19 and park-and-loop delivery sections to the plant for DPSing while keeping the

⁷⁷ See footnote 69 above.

⁷⁸ See Tr.13.3746-3747 (Coombs) and, in R2005, response to ADVO/USPS-9.

remainder for "sequenced bundle" treatment.⁷⁹ This practical constraint underlies the Postal Service policy of sending as much Saturation letter mail to the plant for DPSing as possible and, now, eliminating the DDU discount for Saturation letters in order to encourage their direct plant entry.

To determine the potential impact of DPSing on Saturation letters, I adjusted the base year unit delivery cost for Saturation letters to assume 100% DPS letters. Relative to its current unit cost, 100% DPSing provides a cost savings of close to a penny or almost 28% of current cost.⁸⁰

| | BY City Plus Rural Delivery Cost w/Piggybacks (Per CCS plus RCS Unit Basis) |
|--|--|
| Current Saturation Letter | 3.51 cents |
| Saturation Letter Assuming 100% DPS Treatment | 2.53 cents |
| Current Saturation Flat (ex DAL) | 3.72 cents |

SMC LR-1, DPS_SavingsVP.22.REV.8.10.attach.xls, Unit Costs

Despite Dr. Haldi's worry that delivery costs for Saturation letters in the future could be higher than those for Saturation flats, there is no evidence of that occurring.⁸¹

⁷⁹ R2005, Tr. 11.5991-5993, -6011 (Lewis). The effort would require coordination with the DDUs, special tray and possible piece sort schemes, lower-volume DPS runs, and less full containerization – all of which could impose a considerable cost.

⁸⁰ This is due to three key reasons. (1) Nearly 34% of Saturation letters on city letter routes are now being cased and DPSed letters have a unit delivery cost that is more than 50% less than that for cased letters. (2) Less than 10% of Saturation letters on city routes are "sequenced bundle" mail and their city delivery cost is nearly 70% of that for a DPSed letter. (3) And, DPSed letters on rural routes are the lowest-cost mail handled by rural carriers. (USPS LR-67, VolAdj.USPS.xls, SaturationVols, and UDCMODEL.USPS.xls, 6.Rural cost; SMC LR-1, DPS_SavingsVP.22.REV.8.10.attach.xls)

⁸¹ There may be slightly more mail processing cost for Saturation letters as a result of increased DPSing but there will also be some savings. They include: (1) dock transfer and transportation costs saved from fewer DDU-entry Saturation letters to transport back to the plant and (2) savings associated with greater DPS run volumes, fewer container handlings, and greater volumes per container. The latter would clearly make DPSing of Saturation letters a benefit to the other letters in the system.

1 **IV. VP WITNESS MITCHELL'S IMPLICATION THAT SATURATION LETTERS**
2 **ARE SUBSIDIZING SATURATION FLATS IS SPECIOUS, SELF-SERVING,**
3 **AND WRONG**

4 In VP-T-3, Mr. Mitchell expresses the concern that it is not fair that city
5 carriers principally handle Saturation flats as low-cost "sequenced bundle" mail while
6 Saturation letters are handled either as higher-cost DPS or cased mail. He raises
7 the specter of "cross-subsidy" and asks for redress from the Commission.

8 Mr. Mitchell's concern is based on Dr. Haldi's claim that Saturation letters
9 have been permanently bumped to DPSed status, in favor of Saturation flats that will
10 continue to be delivered as "sequenced bundle" mail. According to Dr. Haldi, if
11 Saturation flats did not exist, Saturation letters would be treated as low-cost
12 "sequenced bundle" mail by city letter carriers. But instead, according to Dr. Haldi,
13 they are handled as higher-cost cased and DPSed mail.

14 I explain in the previous section the reasons why Dr. Haldi's argument is
15 incorrect and that, in fact, Saturation letters will benefit from being DPSed. But Mr.
16 Mitchell's "fairness" argument is so specious that it warrants comment. Indeed, his
17 argument in VP-T-3 contradicts his own test of "fairness" in VP-T-1. In the latter, he
18 contends that if rates for a category of mail exceed their stand-alone costs, then that
19 mail is being treated unfairly. For Saturation flats in particular, he explains his belief
20 that their rates exceed stand-alone costs and are, themselves, being treated unfairly
21 (burdened with costs from other mail categories).

22 Although he acknowledges that treating Saturation flats, rather than
23 Saturation letters, as "sequenced bundles" generates the greatest overall system

1 cost savings,⁸² Mr. Mitchell states that he believes that Saturation letter mailers will
2 "find it in their interest to say."⁸³

3 . . . We are subsidizing the saturation flats. If they were not here, our rates
4 would be lower. We were expecting to share in economies of joint product,
5 and we have been hurt instead. This is not fair.

6
7 Mr. Mitchell then proceeds to explain the incremental cost test for a cross-
8 subsidy. In the incremental cost for a subclass or specified grouping of mail (such
9 as Saturation flats), revenues lost must exceed the system-wide cost saved if that
10 subclass or grouping is eliminated, in order for that subclass or grouping to be
11 subsidy-free. He states that fairness requires that there be no cross-subsidies.⁸⁴

12 Although he does not implement the incremental cost test, he proposes
13 "potential solutions" to his contention that Saturation letters are being treated
14 "unfairly."⁸⁵

- 15 ▪ Impose a delivery cost on both Saturation letters and Saturation flats as
16 though neither were carried as an extra bundle and then let any benefits
17 from extra bundles accrue to Saturation pieces as a group.
- 18 ▪ Impose a delivery cost on both Saturation letters and flats as though both
19 were carried as an extra bundle.

20
21
22 He proposes that the Commission consider these fairness issues, perhaps through a
23 special inquiry or rulemaking.

⁸² VP-T-3, pages 4 (lines 3-5), 7-8, 9.

⁸³ VP-T-3, pages 8-9.

⁸⁴ VP-T-3, pages 10-11.

⁸⁵ VP-T-3, page 12.

A. Saturation Letters Are Not Subsidizing Saturation Flats

Mr. Mitchell's subsidy contention can be disproved by assuming the extreme case under Dr. Haldi's argument: absent Saturation flats, Saturation letters would be shifted from DPS processing so that some may be delivered as "sequenced bundles." Under that incorrect assumption, the incremental costs of Saturation flats would include not only the actual operational costs of the flats themselves, but also the cost difference between the actual Saturation letter costs and Saturation letter costs incurred if Saturation flats were not present in the system. However, even in this extreme example, Mr. Mitchell is incorrect.

The table below compares Saturation flat revenues to costs under the extreme assumption that all Saturation letter mail processing and delivery costs are "caused" by the presence of Saturation flats (i.e., could be eliminated if Saturation flats did not exist).

**TYBR Volumes, Costs and Revenues (000s)
– ECR/NECR Commercial and Non-Profit**

| | Sat Letters | Sat Flats |
|--|--------------------|------------------|
| Mail Processing Cost (Section IV_LR L-84.xls) | \$39,068 | \$64,193 |
| City plus Rural Delivery Cost (AC-UDCModel.USPS) | 143,364 | 568,072 |
| Total MP plus Delivery Cost | 182,432 | 632,265 |
| All Letter and Flat MP and Delivery Cost Assigned to Flats Only | | 814,697 |
| Rough Estimate of All Other Flat Costs | | 100,000 |
| TYBR Incremental Letter and Flat Cost (USPS-T-18, Table 1A, factor of 1.0291) | | 941,315 |
| USPS Proposed Revenues (USPS LR-L-36) | | 1,854,308 |
| Mitchell Proposed Revenues | | 1,486,420 |

All spreadsheets in SMC LR-1. These figures assume all DALs remain in the system

1 As can be seen, the proposed revenues from Saturation flats, either under the
2 USPS proposal or under Mitchell's proposal, more than cover the incremental cost of
3 both Saturation flat and letter mail processing plus delivery (\$941,315,000). Thus,
4 Saturation letter mailers cannot possibly be subsidizing Saturation flat rates or claim
5 that they are being treated "unfairly."

6 Further, contrary to the putative Saturation letter mailers' "complaint," the
7 table indicates that the presence of Saturation flats in the system makes a much
8 larger contribution to institutional cost than indicated under this extreme case. This
9 large Saturation flat contribution means that all other mail, including Saturation
10 letters, benefit from the presence of Saturation flats in the system. In other words, if
11 all Saturation flats were eliminated from the system, rates for other mail categories,
12 including possibly Saturation letters, would need to increase to absorb the
13 contribution loss. That would lead to volume decreases that would further
14 exacerbate the initial contribution loss and contribute to an increasing rate spiral.

15 **B. Mr. Mitchell's Own Stand-Alone Cost Arguments Imply That Saturation**
16 **Flats Are Burdened by Mail From Other Rate Categories**

17 Mr. Mitchell's implication that Saturation flats are being subsidized in some
18 way by Saturation letters contradicts his arguments that ECR rates, particularly
19 those for Saturation flats, may exceed their stand-alone costs.⁸⁶ He points out that
20 the presence of a considerable amount of private delivery of saturation advertising
21 implies that the standalone delivery of Saturation flats is viable at a cost that is lower
22 than the postal Saturation rate. In particular, private carriers deliver mostly pieces

⁸⁶ VP-T-1, pages 57-60 and 82-85.

1 that are eligible to be mailed as High-Density/Saturation flats, not letters.⁸⁷ Mr.

2 Mitchell states:⁸⁸

3 . . . it is presumed to be unfair for a product to end up with a rate that is higher
4 than the rate that would be possible if a stand-alone organization were set up
5 to produce only the product in question.

6
7 In other words, Mr. Mitchell's argument in VP-T-1 that Saturation (flat) rates may
8 exceed stand-alone Saturation (flat) average cost is contradictory to his specious
9 argument in VP-T-3 that Saturation letters may subsidize Saturation flats.⁸⁹

⁸⁷ Testimony of Pete Gorman, SMC-T-1, page 4. Mr. Mitchell also acknowledges this fact. Tr.25.8973

⁸⁸ VP-T-1, page 58, lines 10-12.

⁸⁹ See also response to USPS/VP-T1-16 where he explains that the stand-alone test identifies cross-subsidies – i.e., if a product's rate is greater than its stand-alone cost, then it is subsidizing another product. And, Mr. Mitchell states that it is “. . . unfair for the rates of a product produced within a joint operation to be higher than they would be if the same product were produced in a separate, stand-alone operation.”

AUTOBIOGRAPHICAL SKETCH

My name is Antoinette Crowder. I am a principal with Eagle Analytics LLC, an economic and financial consulting firm located in Alexandria, Virginia. I specialize in regulatory policy, economics, and finance, particularly with respect to Postal Services. I have been involved in this type of consulting for over thirty-three years. Over all that time, I have been involved in a variety of projects dealing with costing, pricing, market and demand studies, economic and financial analyses, survey design, and research on numerous regulatory and policy issues. These activities have concerned the electric power, gas, communications, and postal/publishing industries. I have prepared or assisted in preparing numerous filings at various federal and state regulatory agencies on behalf of numerous clients. In addition, I have provided overseas consulting activities, providing financial, economic and regulatory assistance to multi-national organizations, international firms, and national governments.

I have been involved in postal ratemaking and policy issues since the beginning of the R77-1 rate case. My work has included analysis of revenue requirement, cost attribution and distribution, subclass rate structure and discounts, institutional cost allocations, service-quality measurement, demand and market assessment, and mail classification issues.

I have testified before the Postal Rate Commission in nine proceedings and have contributed to development of other testimony presented to the Commission. In Docket R84-1, I contributed to the mail processing peak-load and second-class intra-SCF discount testimony. In Docket R87-1, I contributed to testimony on city

1 carrier-out-of-office costs and third-class/fourth-class Bound Printed Matter drop-ship
2 discounts, and I also prepared and presented rebuttal testimony on third-class
3 presort discounts. In Dockets C89-3/MC89-1, I helped prepare and presented direct
4 testimony on the proposed local saturation subclass. In Docket R90-1, I assisted in
5 preparation of city carrier out-of-office cost and institutional cost coverage testimony
6 and prepared and presented rebuttal testimony on third-class rates. In the R90-1
7 Remand, on behalf of a third-class mailer's group, I presented two pieces of rebuttal
8 testimony in Docket R94-1 and rebuttal testimony in MC95-1. In Docket R97-1, I
9 presented testimony in response to Presiding Officer's Notice of Inquiry No. 3 on city
10 delivery carrier load time costs and rebuttal testimony on carrier costs and rate
11 design issues. In Docket R2000-1, on behalf of several mailers and mailing groups,
12 I presented testimony on city delivery carrier costs. I also presented rebuttal in that
13 docket concerning ECR rates. In Docket R2005-1, I presented rebuttal on ECR
14 rates.

15 Over the course of my nearly 30-year involvement in postal ratemaking
16 matters, I have had numerous opportunities to observe postal operations and
17 analyze their cost aspects. I have also become familiar with economic costing and
18 pricing concepts, both generally and as applied to postal ratemaking.

19 My education includes a B.S. in Biology from the University of Virginia, an
20 M.S. in Biology from George Mason University, and additional course work in
21 economics, mathematics, and statistics.

1 CHAIRMAN OMAS: This now brings us to oral
2 cross-examination.

3 MR. MCLAUGHLIN: Mr. Chairman, there's one
4 other item.

5 Antoinette Crowder also sponsors a library
6 reference of her workpapers that go along with that,
7 so let me just walk through that.

8 BY MR. MCLAUGHLIN:

9 Q Ms. Crowder, do you also sponsor Library
10 Reference SMC-LR-1?

11 A Yes.

12 Q And does that consist of your workpapers
13 that underlie your testimony?

14 A Yes.

15 MR. MCLAUGHLIN: Mr. Chairman, that is a
16 Category II library reference underlying her
17 testimony, and we would request that that library
18 reference also be received into evidence.

19 CHAIRMAN OMAS: Is there any objection?

20 (No response.)

21 CHAIRMAN OMAS: Hearing none, so ordered.

22 This now brings us to oral cross-
23 examination. Three requests for oral cross-
24 examination have been filed.

25 Newspaper Association of America, Mr. Baker?

1 MR. BAKER: Thank you, Mr. Chairman.

2 CROSS-EXAMINATION

3 BY MR. BAKER:

4 Q Good morning, Ms. Crowder.

5 A Good morning.

6 Q We've met here before, haven't we?

7 A Yes, we have.

8 Q Okay. I'd like to start by asking you to
9 turn to page 2 of your testimony at lines 27 and 28.

10 A Yes, sir.

11 Q Are you there? Okay. There you state that
12 the Saturation Mailers Coalition that's sponsoring and
13 Advo are supporting the ECR rates proposed by the
14 Postal Service, correct?

15 A Yes, sir.

16 Q Okay. And notwithstanding that, you do go
17 on to provide an alternative rate design for ECR rates
18 as well, correct?

19 A Yes, sir.

20 Q All right. Now, I assume you are familiar
21 with the Postal Service's proposed rates for ECR?

22 A Yes, sir.

23 Q And you are aware I'm sure that the USPS'
24 proposed rates used aggregated costs for mail
25 processing and delivery of basic and high density

1 flats when setting the high density rate, correct?

2 A Yes, sir.

3 Q All right. And your proposed alternative
4 rates do not, do they? You used disaggregated costs
5 in your alternatives rate design?

6 A Yes, I did.

7 Q Okay. I want to talk about one subject that
8 seems to get some attention in this case, and this is
9 detached address labels and conversion of mailings
10 with those on-piece addressed flats.

11 First, do you happen to recall approximately
12 the percentage of saturation flats that today have an
13 on-piece address?

14 A I believe the estimate was somewhere between
15 40 and 45 percent.

16 Q Have on-piece address or use DALs?

17 A I'm sorry. DALs. I apologize.

18 Q So about 60 percent? Can we use a 60
19 percent figure as roughly the number?

20 A Roughly.

21 Q Okay. Do you agree that that percentage
22 will likely change if the DAL surcharge is
23 implemented?

24 A I know that there will be DAL mailers who
25 will convert to on-piece addressing.

1 Q Okay.

2 A Quite a substantial amount of them.

3 Q And is it your understanding that the Postal
4 Service's testimony as it now stands as a formal
5 matter assumes there is no conversion of DAL?

6 A That's correct.

7 Q And now we're talking still about addressed
8 saturation flats.

9 Do you recall or would you accept subject to
10 check that according to Mr. Kelley's data about 68
11 percent of the addressed saturation flats today are
12 taken directly to the street? Does that sound about
13 right to you?

14 A I think it may be a little bit more than
15 that.

16 Q Okay. I have a transcript cite where he
17 said that.

18 A I'll accept that.

19 Q Okay. I believe your workpapers which are
20 submitted used Mr. Kelley's spreadsheet as their basis
21 starting point, did they not?

22 A Yes, sir.

23 Q And do you recall that Mr. Kelley assumed
24 that all of the unaddressed flats are taken directly
25 to the street today? That was an assumption that he

1 built in?

2 A Yes, that was his assumption.

3 Q Okay. And is it also your understanding
4 that taking addressed flats, saturation flats,
5 directly to the street is the Postal Service's
6 operational preference? They prefer to do that?

7 A That's correct.

8 Q Okay. Now let's say there are some
9 conversions. First of all, for the DAL mailings that
10 convert to on-piece addressing I guess the most
11 obvious change is that there will no longer be a DAL,
12 and the address will somehow be in the piece, correct?

13 A That's correct.

14 Q Okay. And so the converted unaddressed host
15 flats will in some way become an addressed flat?

16 A Yes, sir.

17 Q Okay. And you would expect that they will
18 be taken directly to the street in the future as well?

19 A Yes, sir.

20 Q Do you expect 100 percent of them to
21 continue to be taken to the street, or might that
22 percentage drop a little bit?

23 A Postal Service Witness Coombs said that
24 there would be no change.

25 Q Okay.

1 A Mr. Kelley agreed with her that there would
2 be no change, and my personal experience would lead me
3 to believe that there would be no change.

4 Q All right. So then these converted flats
5 would resemble at least the 68 percent of the 60
6 percent of the currently addressed flats that are
7 taken directly to the street?

8 I'm not sure you follow that. We started
9 with 60 percent of flats are currently bearing an
10 address, saturation flats, and according to Mr. Kelley
11 about 68 percent of those are taken directly to the
12 street, and so our newly converted flats would be more
13 likely the 68 percent that are taken directly to the
14 street than the 32 percent that are handled in-office
15 and so forth?

16 A All the percentages are a little confusing.
17 Basically my assumption is that the cost of when that
18 flat converts from a DAL flat to an on-piece address
19 flat there will be no change in the cost of that flat
20 itself. What will change will be the elimination of
21 the DAL cost.

22 Q Do you expect the converted flats to be
23 handled any differently by the Postal Service than
24 other addressed saturation flats?

25 A I expect that they will be handled the same

1 way they are handled now.

2 Q All right. Will they be identified in some
3 special way for the Postal Service as legacy DAL
4 mailings or something? How will the Postal Service
5 when they receive them at the DDU know?

6 A As you've already mentioned, the preference
7 is to take saturation flats out directly to the
8 street, and I don't see any reason why that should
9 change.

10 Q Do you have your workpapers with you?

11 A I have them in electronic copy.

12 Q That's fine. That's fine. I mean, I just
13 want to refer to them, and I want to make sure you
14 have them.

15 A Okay. I'll have to get it all set up if you
16 want, or if you have copies of something I'll be glad
17 to look at that.

18 Q Well, I do have copies, but it's our attempt
19 to take a snapshot of what you're saying.

20 A All right. Well, let me look at that first
21 before getting all this other stuff out.

22 Q All right. Yes. All right. What I will be
23 handing you is a snapshot of your spreadsheet
24 acudcmodel.xos, and I believe it's from Sheet 2,
25 Summary for Test Year. Are you familiar with that?

1 A Yes, I'm familiar with that.

2 Q All right. Ms. Crowder, have you had an
3 opportunity to look at the document I just passed to
4 you?

5 A Yes. I'm familiar with it.

6 Q All right. Do the numbers look like the
7 right ones? Okay.

8 I want to sort of understand some of the
9 numbers here and the assumptions that were built into
10 them. On I guess it looks like line 63 there is a row
11 called ECR Saturation Flats Check, and all the way to
12 the right appears the figure of 3.489 cents, correct?

13 A Yes, sir.

14 Q And that represents your calculation of the
15 average cost of saturation addressed flat pieces
16 without DALs. Is that correct?

17 A That is the average cost of a saturation
18 flat without a DAL.

19 Q Okay. And so basically that is a weighted
20 average of line 60 and line 62?

21 A Actually what it is is it's the sum of on
22 line 60 you take the total with piggybacks, which for
23 line 60 that would be \$266,986, and then on line 62
24 you take the \$114,185. You sum those two.

25 Q Right.

1 A And then that's the total cost for
2 saturation flats.

3 Q Sure.

4 A And then you divide by the number of
5 saturation flats, and that's what that number is.

6 Q Okay. Which is mathematically the same as
7 if we summed Column 14, lines 60 and 62?

8 A You could consider that to be a weighted
9 average, yes.

10 Q Okay. All right. Do these data that you
11 used here assume any conversion from DALs to on-piece
12 addresses?

13 A Well, let's see here. The DAL cost on line
14 61 is that box, line 61 with the yellow.

15 Q I understand, yes. Let me ask it a
16 different way.

17 A Okay.

18 Q We're talking past each other.

19 A Okay. I'm sorry.

20 Q The starting data for this that you used
21 when you began the calculation, so which presumably
22 from Witness Kelley's 67, LR-67, that data did not
23 assume any particular percentage of conversion of DALs
24 to on-piece addresses, correct?

25 A No. For Mr. Kelley my understanding was he

1 was just trying to separate out the DAL cost, pulling
2 it out of saturation letters and allocating it or
3 attributing it to saturation flats.

4 Q All right. I think what we're agreeing then
5 is that the data starting in before your calculation
6 did not assume any conversion from DALs to on-piece
7 addresses, and you calculate what you see as the cost
8 consequences of the DALs and then subtract?

9 A All I've done is taken out the DAL cost,
10 yes.

11 Q All right. Secondly, you of course in your
12 testimony and workpapers present an estimate of the
13 cost savings to the Postal Service due to the
14 conversion of DAL addressing to on-piece addressing
15 and so I want to ask you a question about that too.

16 It may not be evident from this particular
17 workpaper, which we can set aside, that you assume for
18 purposes of your calculation -- I think this is in
19 your ECR rate design spreadsheet -- that 50 percent of
20 the DALs convert.

21 A Yes, sir.

22 Q And did you just do that for the ease of
23 calculation?

24 A I did that just -- 50 percent is a nice,
25 round number.

1 Q A nice, round number easy to calculate.

2 A I just wanted to make the point that if DALs
3 are leaving the system then DAL costs are also leaving
4 the system, and ECR mailers should get the benefit of
5 them.

6 Q And you used 50 percent even though, and I
7 think you acknowledged in one of your footnotes, you
8 expect the percentage to be much, much higher?

9 A It's going to be way more than 50 percent.

10 Q Okay. Do your calculations assume that the
11 Postal Service will capture 100 percent of the DAL
12 cost savings as savings?

13 A Yes.

14 Q Okay. So put differently, you're assuming
15 that there will be no additional costs imposed
16 elsewhere in the Postal system from the conversion of
17 the address from the DALs to the host piece?

18 A Yes, sir.

19 Q Okay. Now, we talked previously about that
20 3.489 cent figure from the workpaper sheet that I
21 distributed, and you used that as an input into your
22 rate design, correct?

23 A Yes.

24 Q All right. Turning back to the spreadsheet
25 page I circulated, in your workpapers on line 60,

1 Column 14, do you see the figure of 4.313 cents?

2 A Yes, sir.

3 Q And that is your estimate of the per piece
4 delivery cost for ECR flats, saturation flats, that
5 currently use on-piece addressing? Is that correct?

6 A Okay. I think I understand what the
7 confusion is. Mr. Kelley, this is his spreadsheet
8 which I had modified.

9 Q Yes.

10 A Mr. Kelley was simply with this spreadsheet
11 trying to identify the DAL costs. He made certain
12 assumptions about what an attached address flat cost
13 would be and certain assumptions about what a DAL flat
14 cost would be.

15 It doesn't matter what those assumptions
16 are. What I am saying is on average the average flat
17 cost excluding the DAL is what the cost will be, the
18 estimate of the cost will be for the test year for
19 saturation flats without a DAL.

20 In other words, if you want to -- I am not
21 assuming that 4.3 cents is the cost for an attached
22 label flat and that -- what is it -- 2.4 cents is the
23 DAL flat cost. Those are Mr. Kelley's assumptions,
24 and they were never used for anything. He was just
25 trying to come up with some numbers.

1 For purposes of what I'm doing, those
2 numbers don't mean anything. What means something is
3 the total flat cost excluding the DAL, and I'm trying
4 to get that average because that is the cost that
5 should apply for all saturation flats regardless of
6 whether they have a DAL or not. That is the average
7 flat cost.

8 Further, just to be clear, that is the way I
9 understand Ms. Coombs and Mr. Kelley have explained
10 it, and that's how I understand it.

11 Q All right. I'm going to quibble with you a
12 little bit when you say the 4.3 and the 2.4 cent
13 figures don't matter because you actually do use them
14 in calculating your averages.

15 A No, I don't use those.

16 Q Okay. You get there the other way.

17 A Right. I do not use those.

18 Q Okay. But mathematically you end up at the
19 same spot, don't you?

20 A Mathematically what I did was I summed the
21 total cost for flats, saturation flats. I summed the
22 total cost for saturation flats and divided by the
23 total volume of saturation flats. That is the average
24 flat cost.

25 Embedded in that cost obviously are flats

1 that are sometimes taken to the street directly and
2 sometimes not, flats that may have a DAL on them, or
3 maybe they have an on-piece address. None of that
4 matters because this is the average, and that's all
5 that I am using it for.

6 Q Does this sheet from your spreadsheet give
7 us a per piece delivery cost for an ECR saturation
8 flat with a DAL, or are there numbers on this that you
9 can add together to get that total?

10 A Up further. What you've got is the lower
11 tenth of the spreadsheet.

12 Q I understand that.

13 A If you go up a little further there is a
14 number up there which is the average, that is the sum
15 of the averaged flat cost plus the DAL cost.

16 What I mean by that is it's the average of
17 if you sum all of the saturation flat costs and all of
18 the saturation flat DAL costs and divide by the flat
19 volume you have that average number.

20 Q Do you have that number handy?

21 A No, I don't, but I believe it's something
22 like 5.2 cents. I don't remember exactly. It was
23 roughly 5.2 cents.

24 Q Back to the page we do have, I'm looking
25 again at Column 14.

1 A Column 14?

2 Q Column 14, City Plus Rural Unit Costs.

3 A Okay. I'm sorry.

4 Q Yes. Let's see. Line 61 is labeled ECR
5 Saturation DALs With Saturation Flat Host Pieces. We
6 have a cost figure, a permit volume, and all the way
7 over we come to a city plus rural unit cost of 3.946
8 cents.

9 Do you understand that number to be a unit
10 cost of DALs today?

11 A Yes, that's what it is.

12 Q And if I added that to the number right
13 underneath it, the 2.4 cents, would I arrive at a cost
14 for a saturation flat with DAL and unaddressed host
15 pieces?

16 A That would be Mr. Kelley's estimate of that.

17 Q Mr. Kelley's estimate.

18 A I'm not claiming that estimate.

19 Q Okay. You have a different estimate?

20 A I didn't make one.

21 Q All right.

22 A I didn't need to.

23 Q All right. I have one more document I want
24 to distribute. Ms. Crowder, what we've got here was
25 this simple little bar chart. Using the numbers that

1 we were talking about -- oh, sorry. Let's start by
2 just asking did we correctly copy the numbers off the
3 spreadsheet page that we've been talking about?

4 A Let me check that.

5 Q Okay.

6 (Pause.)

7 A Yes, it's correct.

8 Q Okay. And on the left is the cost estimate
9 that appears in your workpapers drawn from Mr. Kelley
10 of an on-piece address flat of 4.313, and on the right
11 are the two numbers we just discussed, the cost
12 estimate of the DAL plus the unaddressed host piece.

13 I just want to make sure I understand your
14 testimony and what your understanding is of the costs
15 that we will have after DAL conversions. Let's
16 consider a mailing that has converted from DAL
17 addressing to on-piece addressing.

18 Am I correct that you do not assume that the
19 cost of the newly addressed saturation flats will have
20 the 4.313 cents on the left? That is not your
21 assumption, correct?

22 A That's not what I have assumed. That's
23 correct.

24 Q Okay. Before the day started I was thinking
25 you were going to say that you were assuming that they

1 do have the 2.411 cent cost on the right. Is that
2 your assumption or not?

3 A What is "they"?

4 Q The newly converted on-piece addressed
5 saturation flats.

6 A Let me explain it a little differently.

7 Q Okay.

8 A Mr. Kelley took the saturation flat cost,
9 which is known. We know it, and that's the number
10 that I used, the average saturation flat cost.

11 He tried to deaverage it the best that he
12 could into on-piece addressed and DAL addressed flats.
13 There was no need for him to do that, but he did it.
14 No one has used it, and I have not used it. I never
15 took the time to quibble with it because it wasn't
16 important.

17 Those are just crude estimates that Mr.
18 Kelley -- it was almost like it was a curiosity to try
19 to deaverage it, but some of his assumptions are not
20 really what occur in the field.

21 The one thing that is important is the
22 average flat. For example, as you've mentioned, and I
23 want to be sure I make it clear. The 2.4 cents that
24 you have down here for just the saturation flat host
25 piece means that every last flat that goes with the

1 DAL is carried out as a sequenced bundle directly to
2 the street. Well, I know that doesn't happen.

3 Addressed flats are often carried out to the
4 street, probably more than what Mr. Kelley has
5 estimated. Those unit costs, I put those in there
6 just as a curiosity. It wasn't Mr. Kelley, but I
7 don't use them for anything, and they don't have any
8 value in terms of what I'm trying to do. What has
9 value is that average unit flat cost.

10 Q So you use a figure that if we took the
11 liberty of drawing a line somewhere in between about
12 the 3.489 level?

13 A It's the average of the two.

14 Q An average in there?

15 A Right, because again sometimes a host piece,
16 if you want to call it that, host piece being an
17 unaddressed flat that has a DAL with it. Sometimes
18 those are cased, but Mr. Kelley didn't put that in
19 there.

20 Sometimes flats that have addresses on them
21 are taken out to the street. Quite often, as a matter
22 of fact, although probably the percentages that Mr.
23 Kelley has in there aren't quite right, but it didn't
24 matter. It doesn't matter because we don't use it for
25 anything.

1 Q If you could in your mind or with a pencil
2 there draw another line sort of in between the two at
3 about the 3.489 cent level?

4 A Okay.

5 Q When we're talking about the DAL costs that
6 your testimony says, and other Postal Service
7 witnesses discuss this to some extent too, will be
8 saved on a one-to-one basis when the DALs are
9 eliminated, would they be the 3.946 cents on the
10 right, or would they be the difference between that
11 figure and the line you just drew, or would they be
12 some other figure that's not on this chart?

13 A It would be the difference between -- the
14 DAL cost savings are the number of DALs that are
15 eliminated times that unit cost of 3.946 cents.

16 MR. BAKER: I have no more questions, Mr.
17 Chairman, but it might be useful, Mr. Chairman, if I
18 put the bar chart exhibit into the record as a cross-
19 examination exhibit for clarity. I'd like to do that.

20 It could be marked as a cross-examination
21 exhibit. I don't think we need to move it into
22 evidence per se, but we can mark it as evidence.

23 The spreadsheet, since it's all in her
24 testimony already, I see no reason to put in the
25 transcript unless the Chairman needs it there.

1 CHAIRMAN OMAS: Without objection. So
2 ordered.

3 MR. BAKER: It will be marked as NAA-X-EX-1,
4 and I have no more questions.

5 CHAIRMAN OMAS: Thank you.

6 (The document referred to was
7 marked for identification as
8 Exhibit No. NAA-X-EX-1 and
9 was received in evidence.)

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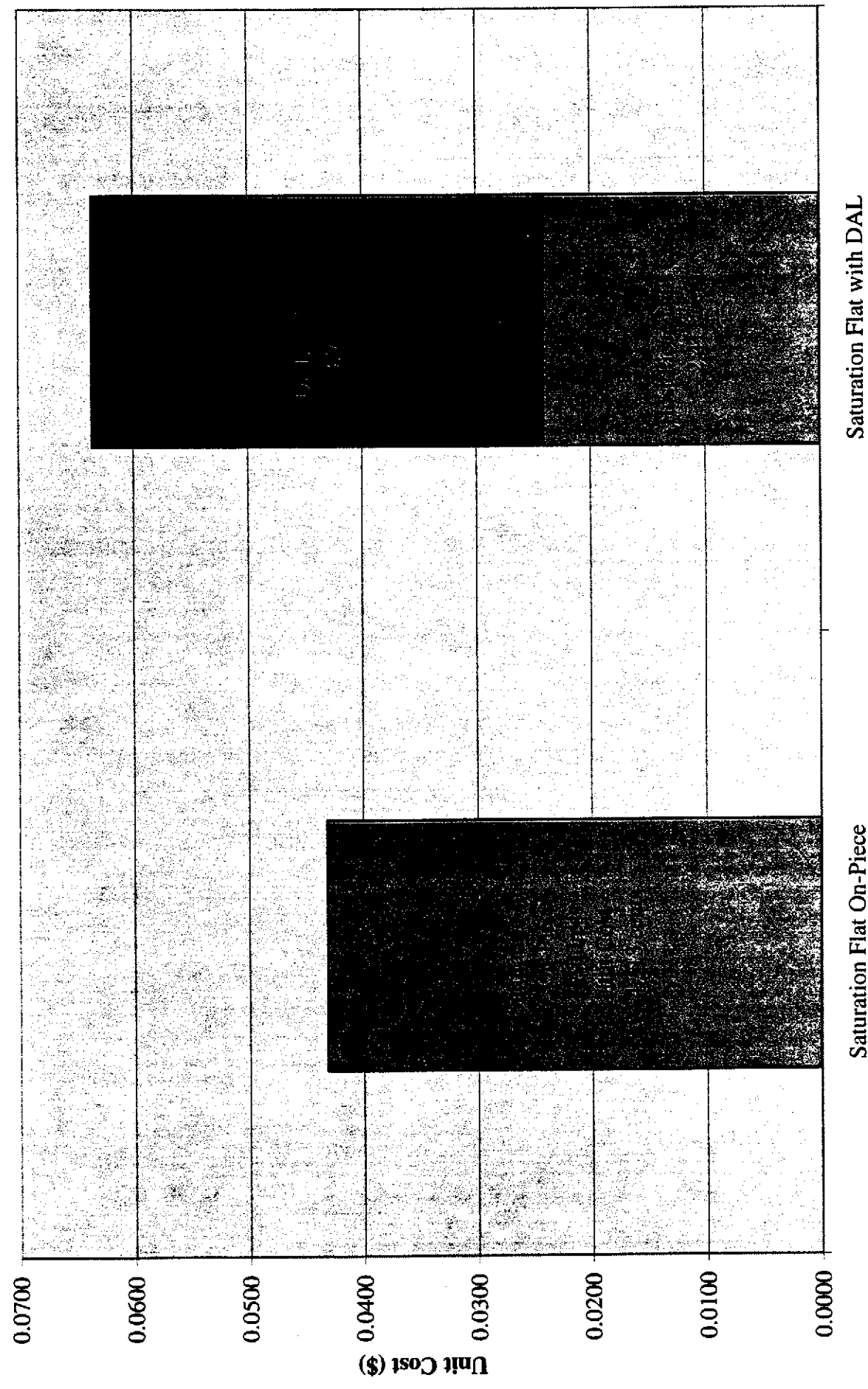
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Unit Delivery Cost of ECR Saturation Mail According to AC-UDCModel.USPS.xls Before DAL Conversion to On-Piece Labels



1 CHAIRMAN OMAS: Mr. Reimer?

2 MR. REIMER: Thank you, Mr. Chairman. The
3 Postal Service has no questions.

4 CHAIRMAN OMAS: Thank you, Mr. Reimer.

5 Mr. Olson?

6 CROSS-EXAMINATION

7 BY MR. OLSON:

8 Q Ms. Crowder, hi. Bill Olson for Valpak. I
9 want to pick up with DALs from Mr. Baker and ask you
10 to look at page 8 of your testimony, line 15, where
11 you note the total cost of DALs in the test year is
12 \$197 million, correct?

13 A Yes, sir.

14 Q Is that a number you developed, or is that
15 from Witness Kelley?

16 A I have it right here. The delivery cost is
17 almost \$187 million, and then a little over \$10
18 million is mail processing cost.

19 I get that from a response the Postal
20 Service gave us. I think it was Witness Talmo, and I
21 think that's on footnote 8. Yes.

22 Q Okay. So the answer is you developed that
23 figure?

24 A I summed the two figures together, yes.

25 Q Okay. And so you accept that number?

1 A As the DAL cost, yes.

2 Q At page 8, line 16, you say that over 40
3 percent of saturation flats currently use DALs as you
4 discussed with Mr. Baker, correct?

5 A Yes, sir.

6 Q Do you know the volume of saturation flats
7 in FY 2005 offhand? I mean, I have it so can I
8 suggest that it's 10.646 billion pieces?

9 A Sure.

10 Q And 40 percent would be about 4.3 billion?
11 Would that look about right?

12 A Yes, sir.

13 Q So over 40 percent means that there were
14 more than 4.3 billion DALs in 2005?

15 A I'll accept that.

16 Q Witness Kelley in his testimony, USPS-T-30
17 at page 13, comes up with a number of 4.6 billion for
18 fiscal 2005. Do you recall that?

19 A I recall that Mr. Kelley did that, came up
20 with a number. I can't remember exactly what the
21 number is, but it's in that ballpark.

22 Q Page 13, line 12, says 4,607,996 DALs.
23 Close enough?

24 A Yes.

25 Q Okay. So your statement of more than 40

1 percent is consistent with his estimate of 4.6 billion
2 DALs, correct?

3 A Yes. I used his estimate.

4 Q Okay. Let's look at page 10, your footnote
5 11, where you say the proposed DAL surcharge of 1.5
6 cents does not cover the unit cost of a DAL, correct?

7 A Yes, sir.

8 Q Okay. Let's take a hypothetical, and let's
9 assume that without the DAL surcharge there would be
10 4.4 billion DALs in the test year and that the
11 surcharge causes 50 percent to convert to on-piece
12 advertising, okay? That's consistent with your
13 estimate with on-piece addressing?

14 A So what you're saying is that it's 4.4
15 billion in the test year and 50 percent convert, so
16 then 2.2 billion convert?

17 Q Yes. And that 50 percent number is
18 consistent with the top of page 13 of your testimony?

19 A That's correct. That's what I meant.

20 Q Okay.

21 A Whatever that test year number was, that's
22 what I meant.

23 Q Okay. In this hypothetical, a 50 percent
24 reduction would reduce the number of DALs, like you
25 say, by 2.5 billion to 2.5 billion, correct?

1 I'm sorry. It was 4.4 billion, and it goes
2 down to 2.2 billion, which is a reduction of 2.2
3 billion?

4 A Yes, sir.

5 Q Okay. So without any conversion, the cost
6 of those DALs if they were in the system, let's say
7 for simplicity rounding your number we'll say about
8 \$200 million would be the cost of those 4.4 billion
9 DALs, okay?

10 A Yes.

11 Q And if we reduce the number of DALs by half
12 we're assuming we reduce the cost by half to about
13 \$100 million, correct?

14 A Yes, sir.

15 Q Okay. And if the 2.2 billion DALs that
16 remain in the system pay 1.5 cents each as a charge,
17 the extra revenue to the Postal Service would be \$33
18 million? If it was 2.2 billion at a penny it would be
19 \$22 million.

20 A I'll accept that for your example.

21 Q You'll accept that? Okay.

22 A So for the remaining 2.2 billion DALs we
23 have surcharge revenues of \$33 million and costs of
24 about \$100 million, correct?

25 A Yes, sir.

1 Q So the DAL costs exceed the DAL revenues by
2 about \$67 million?

3 A Yes, sir.

4 Q Okay. Do you have an opinion as to how the
5 extra \$67 million of unrecouped costs from DALs should
6 be recovered and built into the cost base? How did
7 you do that? Where does that reside?

8 A That resides -- you said \$67 million in our
9 example?

10 Q Yes.

11 A That is just something that all ECR covers.
12 It's like an overhead. I've added it like an
13 overhead.

14 Q So in other words, that unrecouped cost of
15 handling the DALs that go with ECR saturation flats is
16 not paid by ECR saturation flat mail only?

17 A Well, there is a distinction here now. I
18 want to be very clear that saturation flats either
19 with or without DALs -- even with the DAL they are
20 covering their cost. It's just that DAL flat mailers
21 are not paying as much of an institutional cost
22 contribution as nonDAL members. Flats. Excuse me.

23 Q Did I say anything about not covering their
24 costs?

25 A I thought that's what you said. I'm sorry.

1 I apologize.

2 Q About all flats, ECR flats, not covering
3 their cost? Did I say that?

4 A I thought I heard something about the DAL is
5 not covering its cost.

6 Q Okay. Let me go back and repeat what I said
7 and see if we can get on the same page.

8 What I'm trying to get at is that we've
9 agreed that there's in this hypothetical an extra \$67
10 million of DAL costs that are not covered by the
11 revenues of the Postal Service 1.5 cent charge, and
12 you said that they are paid by all ECR mail. Isn't
13 that correct?

14 A Let me back up and explain it the way I
15 would prefer to explain it.

16 All saturation flats with the proposed
17 Postal Service rate, all saturation flats are covering
18 their cost regardless of whether it's a flat that has
19 an on-piece address to it or it's a flat that has a
20 DAL.

21 Q Okay. Just to be clear, I haven't raised
22 that question.

23 A Well, let me finish because I don't know how
24 else to explain it.

25 Q Go ahead.

1 A A DAL flat, however, is not making as much
2 contribution as an on-piece address flat, and the
3 difference in that contribution is made up by
4 everybody else. That's what I'm trying to explain.

5 Q Okay. If you could take your pen and write
6 these options down? Let's say we have the \$67 million
7 of unrecouped DAL cost in the test year in this
8 hypothetical. You understand that, correct?

9 A Again, that's what I'm trying to address.

10 Q It's not recouped by the DAL charge that the
11 Postal Service proposes.

12 A Exactly. It's not recouped in the 1.5 cent
13 DAL surcharge.

14 Q Okay. That's all I'm trying to have you
15 acknowledge; that that \$67 million in this
16 hypothetical is not covered by the surcharge.

17 A And you are correct on that.

18 Q Okay. I'm trying to figure out who pays it.
19 Let me ask you to write down just four possible
20 options that I see.

21 A Okay.

22 Q One is it could be paid by all ECR
23 saturation flat mail. It could be paid by all ECR
24 flat mail. That would be number two. Number three is
25 it could be all ECR saturation mail, including

1 letters, or, fourth, it could be spread over all ECR
2 mail.

3 I just want to clarify what you were
4 recommending in terms of the treatment of those costs.
5 Who pays them?

6 A Effectively what I am recommending is that
7 the saturation DAL flat rate pay a slightly less per
8 piece contribution than on-piece address saturation
9 flat mailers.

10 The difference in that contribution would
11 have to be made up by everybody else. Everybody else.
12 All ECR.

13 Q Okay. When you say everybody else, you mean
14 all standard ECR mailers?

15 A Exactly.

16 Q Okay. So your answer then is as to where
17 the \$67 million appears, your answer is number four?

18 A The \$67 million in lower contribution for
19 DAL flats, that \$67 million in contribution is made up
20 by everybody else.

21 Q Okay.

22 A By everybody, including on-piece address
23 saturation flats.

24 Q So in your scenario ECR letters are paying a
25 part of that \$67 million?

1 A A small part of it, yes.

2 Q Okay. Let me ask you to turn to your
3 testimony on page 12. You talk in the paragraph
4 beginning on line 3 and you say:

5 "Recently the Saturation Mailers Coalition
6 and the Postal Service have been discussing procedures
7 whereby saturation flat mailers can mail boxholder
8 flats on rural routes and still respond to the small
9 number of DND requests on these routes. Their intent
10 is to enable saturation flat mailers to mail on-piece
11 simplified address boxholder flats on rural routes and
12 thereby avoid the unnecessary Postal costs associated
13 with city style addressing of these costs."

14 Let me just end it there for a second and
15 say is it your understanding in rural routes that both
16 letters and flats can be considered boxholders?

17 A Yes, sir.

18 Q Okay. When the SMC went to the Postal
19 Service to discuss this alternative addressing is it
20 limited to flats, or also does it cover letters?

21 A Do you mean the Do Not Deliver?

22 Q The method to adjust to the Do Not Deliver
23 rules.

24 You used the word "flats" in line 4 twice
25 and line 6 and line 8, and I'm trying to understand

1 whether when the SMC, the Saturation Mailers
2 Coalition, went to the Postal Service was it on behalf
3 of all boxholder mail and rural routes with letters
4 and flats trying to institute this fix, or was it just
5 for flats?

6 A No. This is related to the DAL, to trying
7 to eliminate as many DALs as possible and still save
8 the Postal Service money.

9 The problem was that we wanted to be sure
10 that if you had to put an address on that saturation
11 flat that it could be a simplified address because
12 that is the lowest cost for flats for rural.

13 Now, for letters I don't think that would
14 make that much difference because ECR letters per se
15 are automatable or are supposed to be automation
16 compatible and so there wouldn't be any need to have a
17 Do Not Deliver mechanism.

18 Now, I do understand that some saturation
19 letters can still be considered letters and get the
20 letter rate and still be simplified or boxholder, but
21 that's a higher rate. That's a higher cost than a
22 DPS'd letter.

23 To our way of thinking, it's far more
24 valuable for saturation letters to be DPS'd than to go
25 with simplified or boxholder. It's just more value

1 there for the mailer.

2 Q I understand your argument that you want to
3 provide the mailers who have been using DALs a cheaper
4 alternative to DALs. That's the motivation, correct?

5 A Yes, sir.

6 Q And that's your argument to the Postal
7 Service as to why they ought to allow flats to have
8 this benefit of getting around the Do Not Distribute
9 request, correct?

10 A Yes. It's a win/win situation. The Postal
11 Service saves cost, and the mailers get a lower rate.

12 Q And I'm just saying are there not saturation
13 letter mailers in the SMC?

14 A Yes, there are as a matter of fact.

15 Q And there's no desire by SMC to make any
16 adjustment for boxholder letters comparable to flats?
17 This is something that would be available to flats
18 only under your proposal? Is that what you're saying?

19 A I haven't been party to all of the
20 conversations so I really couldn't say, but I would
21 suspect that just based -- I see no reason to bring
22 letters into the picture because letters are being
23 taken care of.

24 Q But to your knowledge the SMC discussions
25 with the Postal Service are for flats only? Is that

1 correct?

2 A Again, I haven't been involved in all of
3 those conversations.

4 Q Insofar as you know.

5 A Insofar as I know and as far as my
6 recommendations go --

7 Q I understand.

8 A -- I would not suggest that saturation
9 letters go to boxholder instead of DPS because that
10 wouldn't be to their benefit.

11 Q No. I understand. You've said that before.
12 I was just trying to get to what the proposal is, not
13 your argument to the Postal Service.

14 A All right. The proposal is a Do Not Deliver
15 mechanism for simplified or boxholder addresses.

16 Q On flats?

17 A I would assume it's on flats.

18 Q Okay.

19 A The flats has been the focus. Let me put it
20 that way.

21 Q Okay. Well, have you ever heard letters
22 discussed as to a proposal by SMC to have letters also
23 have the same rules apply to them?

24 A Again, no, because I don't see that that
25 has --

1 Q Okay. I'm just trying to find out if it was
2 discussed.

3 A All right. Let me explain. I've been
4 working with the mailers, and I've been working with
5 SMC quite a bit, as a matter of fact. If it hasn't
6 been mentioned it's because I haven't mentioned it
7 because I don't see any benefit in doing that.

8 Q Okay. Let's take a look at page 12, line 8.
9 You say the Postal Service has recently stated to the
10 SMC that it is committed to implementing such a
11 procedure that will enable mailers to identify DND
12 addresses on rural routes so they can utilize
13 simplified addressing.

14 Now, this is your characterization of the
15 Postal Service's response to SMC, correct?

16 A That is what has been related to me as a
17 direct conversation between Mr. Ashley Lyons from the
18 Postal Service and Mr. Vincent Juliano from Advo.
19 There has been extensive discussions.

20 The Postal Service, Mr. Lyons, has told Mr.
21 Juliano it's very safe to say that the Postal Service
22 is committed to finding and utilizing a mechanism for
23 Do Not Delivers.

24 Q Okay. You used both the word "stated" and
25 "committed" in the same sentence.

1 A Yes.

2 Q Is it your understanding that that is a
3 statement made by the Postal Service or a commitment
4 made by the Postal Service?

5 A It's a statement by Mr. Lyons whereby he
6 said the Postal Service is committed.

7 Q So you view that as a commitment of the
8 Postal Service to SMC?

9 A Yes.

10 Q You're characterizing it that way?

11 A Yes, sir.

12 Q Okay. Now, you say you haven't heard that,
13 and you've identified who said it, and you've heard
14 that from --

15 A Mr. Juliano told me that directly himself.

16 Q Okay. Do you know when that statement was
17 made?

18 A I wrote it down. This was a November 2,
19 2006, phone call between Ashley Lyons, Mr. Ashley
20 Lyons, and Mr. Vincent Juliano.

21 It followed the most recent meeting between
22 the Postal Service and the SMC, which was on
23 October 18, and at that point there were discussions
24 about various Do Not Deliver mechanisms on rural
25 routes.

1 There seemed to be no disagreements, no
2 problems. The only issue was which mechanism would be
3 the best for everybody involved.

4 Q And what date did you say? November 2?

5 A A November 2 phone call.

6 Q And then your testimony was filed
7 November 20, correct?

8 A Yes, sir.

9 Q And now we're December 4, correct?

10 A Yes, sir.

11 Q Any update you can give us as of today?

12 A I have not heard anything else. You're
13 right.

14 Q Is this commitment also in writing, to your
15 knowledge?

16 A I have not heard that.

17 Q Do you know if it has anything to do with
18 the negotiations with the rural carriers?

19 A I've told you everything I know.

20 Q Okay. Then I will not ask any more. Let me
21 ask you to look at page 6, line 12. You say, "Under
22 ECP as espoused by Drs. Panzar and Sidak in this
23 proceeding, rate differences within a subclass should
24 reflect cost differences," correct?

25 A Yes, sir.

1 Q Are you saying that it's your understanding
2 that Dr. Sidak considers a mailer's choice of shape or
3 weight of a mail piece to represent worksharing?

4 A Originally he seemed to think that it was
5 not. Advo asked him some questions, and I have
6 responses, Sidak responses, listed in footnote 1.

7 What Dr. Sidak says is if the value is
8 reasonably the same within the subclass then he would
9 agree with Dr. Panzar. We gave him Dr. Panzar's
10 quote, and he said he would agree under those
11 conditions.

12 Q As long as all the categories are assumed to
13 have the same value, correct? That's what he said?

14 A Reasonably assume. I don't exactly have the
15 words. I can look them up for you if you want.

16 Q Well, let me ask you about your view. The
17 footnote cites to Witnesses Sidak and Panzar, but I
18 take it that reflects your position also?

19 A Right. There's been a lot said about this
20 particular issue of value with a subclass and whether
21 you can assume that every product within the subclass
22 has the same value or same price sensitivity, price
23 elasticity if you will.

24 If you assume that they're reasonably the
25 same price elasticities, when you assume that, which

1 is what Dr. Panzar was assuming, then theoretically it
2 makes sense. There are reasons mailers make decisions
3 between letters and flats, depending on their purpose,
4 but also depending on their cost.

5 Q When you say "makes sense," makes sense to
6 you?

7 A Yes. From an economic standpoint
8 mathematically, there are good reasons for doing that.

9 Q Okay. If they have the same value?

10 A If they reasonably have the same value.
11 Now, I think Dr. Panzar has been taken to task on
12 that. You know, when you do a theory you've got to
13 come up with some simplifications, and that was his
14 simplification.

15 Q Okay. Let me ask about the corollary of
16 that theory then. If all shape and weight categories
17 do not have the same value then is it fair to say that
18 Dr. Sidak would not agree that ECP principles are
19 applicable?

20 A I think if you can identify them and come up
21 -- I mean, if you can quantify the differences or come
22 up with some good, qualitative arguments why they are
23 different and you go in the correct direction towards
24 those differences then I think most economists -- I
25 can't speak for Dr. Sidak, but I think most economists

1 would pretty much agree that that's what you should
2 do.

3 Q Let me just nail this down and suggest two
4 different statements and ask you which of these is
5 more closely reflective of your view.

6 Let's say Statement A is that the principles
7 of ECP are applicable to shape and weight regardless
8 of whether all shape and weight categories have the
9 same value so that it doesn't matter if they have the
10 same value. That would be Option A.

11 Option B is agreeing with Dr. Sidak that ECP
12 principles are applicable only when shape and rate
13 categories have the same value.

14 A Okay. First of all, I think what you mean
15 is within a subclass.

16 Q Yes.

17 A Okay. I don't believe that I can agree with
18 either one of these.

19 Q Okay.

20 A It's not quite that cut and dried.

21 Q The difference between the two is if the
22 shape and weight categories have the same value. They
23 either do or they don't. How is there a middle ground
24 there? Do you have a middle ground between these two?

25 A I'm trying to organize my thoughts here.

1 Within a subclass I think the simplification that Dr.
2 Panzar had and Dr. Sidak kind of goes along with is
3 that if you can assume they all have the same value
4 within a subclass roughly, the same price sensitivity,
5 then ECP is appropriate.

6 You don't know for sure what you've got in
7 terms of price sensitivity. You know the overall
8 price sensitivity for the subclass, and basically the
9 only differences that you see within the subclass are
10 cost characteristic differences, either worksharing or
11 shape-related or weight-related. That is a
12 simplification to come up with the economic theory.

13 In practice I think Dr. Panzar has been
14 taken to task, and I think a little bit unfairly. In
15 practice it's not that simple. In practice within a
16 subclass sometimes you can identify products that are
17 different and that qualitatively you know have a
18 different price sensitivity and qualitatively you know
19 which direction it is so that you can do something,
20 something more within a subclass than just ECP.

21 I think that you need to look at the
22 characteristics within a particular subclass to make
23 those decisions.

24 Q I want to go back to my A and my B.

25 A Okay.

1 Q Let's dissect this because I'm not sure I
2 still grasp the distinction you're making.

3 The one thing I did understand is you said
4 that in practice things are more difficult than they
5 are in theory, correct?

6 A That's correct.

7 Q Okay. Let's deal with this at a theoretical
8 level for the moment because that's most of what
9 Witness Panzar does, correct?

10 A Yes, sir.

11 Q And Witness Sidak?

12 A Yes.

13 Q Okay. I want to know what your position is,
14 and I'm going to give these two separately and ask you
15 to comment on whether you agree or disagree.

16 The first is do you believe that the
17 principles of ECP are applicable regardless of whether
18 categories have the same value?

19 A The first one, ECP would be applicable if
20 you have no information, no good information on
21 relative price sensitivities and/or if there is a
22 considerable amount of mailer decision based on those
23 rates among the different categories within that
24 subclass.

25 Now, if there is a known difference in value

1 and not only do you know -- you can't quantify it, but
2 you know and you know generally the directions, then I
3 think sometimes it is useful, very useful, to depart
4 from ECP and have a lower cost contribution for or
5 lower cost coverage for the parts of the subclass that
6 are more price sensitive.

7 Q So when you hear the words "shape and weight
8 categories having the same value" you think
9 elasticity? That's what comes to mind, correct?

10 A Well, I think we're talking about rate
11 categories now, aren't we?

12 Q We're talking within a subclass.

13 A Rate categories.

14 Q Yes.

15 A Okay.

16 Q But each time the word "value" came up you
17 took it to be elasticity.

18 A Right.

19 Q So I'm just saying that your understanding
20 of value is elasticity, correct?

21 A Yes, for the individual rate categories.
22 Actually, you know, if you really wanted to get into
23 it you could do price sensitivities even within a rate
24 category.

25 You could look at that, but that information

1 is not available. Certainly the quantitative
2 information is not available.

3 Q The second option, B, that I gave you before
4 was what I characterized as Dr. Sidak's view that ECP
5 principles are only applicable when all shape and
6 weight categories have the same value.

7 Is that a fair statement of what Dr. Sidak
8 -- or reasonable. You had reasonable.

9 A Yes. I can't remember exactly what his
10 words were, but --

11 Q Do you agree with that?

12 A I think what he's saying and what Dr. Panzar
13 is also saying is if you don't know that there is any
14 difference within the subclass you have to assume that
15 they're all about the same and that ECP is
16 appropriate.

17 In other words, if you don't have
18 quantitative information you don't really have a lot
19 of qualitative information one way or the other. Then
20 the best way to, you know, maximize efficiency that
21 you have as a rate maker is to go with ECP.

22 Q So you would agree that ECP doesn't apply
23 when it's demonstrated that different rate categories
24 do not have the same value?

25 A If it's substantially different, and I

1 couldn't tell you how much substantial again.

2 Q Anticipating the question.

3 A There's an art to this. These are not hard
4 and fast rules and shouldn't be taken that way. There
5 is an art to this, and you need to look at each
6 circumstance to see how to apply the theories.

7 Q Okay. Let's talk about this with respect to
8 weight. First of all, to the best of your knowledge
9 does Advo itself sell any products or services to
10 consumers like L.L. Bean or Lands End? It doesn't
11 engage in direct retail sales, correct?

12 A No.

13 Q I mean, its primary business, if not its
14 exclusive business, is selling advertising in co-op
15 mailings, correct?

16 A Effectively it's a mailer of advertisements,
17 yes.

18 Q Okay. So the pieces in Advo's co-op
19 mailings are frequently advertisements for products
20 and services sold by other companies, correct?

21 A (Non-verbal response.)

22 Q I think you said yes, but I --

23 A Yes, sir.

24 Q Okay. Thank you. Sometimes it doesn't pick
25 up.

1 Aside from the fine work that Advo does in
2 giving publicity for missing children, is it fair to
3 say or to presume that Advo is paid for each piece
4 that's included in the co-op mailings?

5 A Generally.

6 Q That would be your expectation?

7 A Yes.

8 Q Do you recall that Mr. Otuteye has a firm --
9 Money Mailer, I believe -- and is it your
10 understanding he gets paid for every additional coupon
11 in his mailings as well?

12 A Generally, yes.

13 Q And each item in an Advo co-op mailing or
14 each additional coupon in one of Mr. Otuteye's
15 mailings adds to the weight of the mail piece, doesn't
16 it?

17 A Yes, sir.

18 CHAIRMAN OMAS: Mr. Olson, excuse me. Could
19 you tell me how much longer you have with this witness
20 approximately?

21 MR. OLSON: I would say about 45 minutes.

22 CHAIRMAN OMAS: With that, we'll take a --

23 MR. OLSON: Mr. Chairman, if I could, I
24 could probably -- that's fine. I was just saying I
25 could get to the end of a section, but I think you're

1 taking the wise course.

2 CHAIRMAN OMAS: Well, the morning break.

3 Thank you.

4 (Whereupon, a short recess was taken.)

5 CHAIRMAN OMAS: Mr. Olson?

6 BY MR. OLSON:

7 Q Ms. Crowder, before the break I was asking
8 you some questions about Advo, for example, being paid
9 for each piece that's included in its co-op mailings.
10 Do you recall that?

11 A Yes, sir.

12 Q And that that added to the weight of the
13 piece, correct?

14 A Yes, sir.

15 Q So as weight of the mail piece increases,
16 cooperative mailers like Advo and Money Mailer and
17 Valpak for that matter are receiving more revenue for
18 the package, aren't they?

19 A Yes.

20 Q And receiving more revenue for the package
21 at least gives them the opportunity to make a higher
22 profit on the package, doesn't it?

23 A Well, it depends on whether that revenue
24 covers the cost.

25 Q It gives them the opportunity to make a

1 higher profit?

2 A Exactly.

3 Q And would you agree that heavier weight mail
4 pieces are likely to be more profitable to saturation
5 mailers like Advo and Money Mailer and Valpak?

6 A I would agree that the heavier weight
7 pieces, the more weight that the piece includes for
8 shared mailers, co-op mailers, the more likely that
9 that program is profitable and will remain viable.

10 Q And the more likely it is profitable the
11 more valuable that extra weight is to the mailer,
12 correct?

13 A Again, it depends on the margin they can get
14 on that extra weight.

15 Q Right. The pricing of the extra postage
16 versus the revenue from the extra piece, correct?

17 A Yes.

18 Q Okay. And we may not agree on what it is,
19 but assuming some type of rational rate structure then
20 if Advo sees that the weight of their pieces is going
21 up they're probably going to be happy about that,
22 wouldn't you say?

23 A Again, it depends on the margin that they're
24 getting on those pieces. Sometimes they don't get
25 very much.

1 Q I'm asking you to assume some reasonable
2 price structure, even though we may not agree what it
3 is, in terms of the postage that's paid for the extra
4 weight and saying in general when the weight goes up
5 of a cooperative mailing isn't that something that
6 makes the owners of the company smile?

7 A If they're making a profit on it, yes.

8 Q Okay. Then on what grounds can we assume
9 that heavier weight pieces have no more value than
10 lightweight pieces?

11 A Because if you're talking about value as
12 being price sensitivity or price elasticity, then I
13 think that you can assume that heavier weight pieces
14 are more price sensitive or adding weight to a mailing
15 is more price sensitive than just the mailing itself.

16 Let me see how I can explain this. As you
17 add weight to a mail piece, and I'm talking about
18 shared or co-op mailings now. As you add weight,
19 there become more alternatives for that kind of
20 advertising.

21 Adding weight means that the package or
22 piece may go to private delivery, which it often does.
23 Additional weight also has an alternative with
24 newspapers as you add weight.

25 Q Okay.

1 A Additional weight also has an alternative
2 with internet advertising.

3 Q The additional weight we agree is generating
4 additional revenue, correct, and then it's all a
5 matter of what it costs?

6 A If you are looking at it every piece I'm
7 going to get a margin and the more pieces I get
8 obviously I get more margin, that's not really the way
9 it works.

10 In order to get those additional pieces you
11 have to bring your price down, and adding weight means
12 that the mailer is facing that pound cost.

13 Q I'm sorry. You talked about bringing the
14 price down. Are you saying that for some pieces that
15 Advo drops its unit price for adding an extra piece?

16 A In order to fill its packages, it has to
17 price in order to get that additional weight. That
18 additional weight can either go in the shared mail
19 package, or it can go in a newspaper, or it can go in
20 private delivery, or in some cases it can even go on
21 the internet.

22 Q So are you saying that the last people to
23 make a decision to buy in any given week are given a
24 reduced rate over the ones before them?

25 A No, sir. Actually that's not the way it

1 works at all.

2 Q I didn't think so.

3 A I think Mr. Otuteye explained that in the
4 last rate case.

5 For shared mailers, for most shared mailers,
6 they have to price as though any piece of advertising
7 is going to go over the break point, so the pound
8 rate, the Postal pound rate, is their marginal cost
9 that they have to cover in order to make any kind of
10 margin on that additional insert to the package.

11 Q Let's assume we're just dealing with pieces
12 that are below the pound rate, and therefore they're
13 paying the same rate, the minimum per piece rate, all
14 right, whether they be letters or flats?

15 A And what are we assuming about them?

16 Q Well, let's come at this a different way.
17 Let me ask you to take a look at page 8 of your
18 testimony, line 6. There you say -- I think it would
19 be okay to excerpt this phrase -- you say, "The ECR
20 pound rate does not comport with ECP principles."
21 Correct?

22 A Yes, sir.

23 Q And your testimony says that the ECP rule on
24 basing rate differences on cost differences should be
25 applied to all cost-causing characteristics of mail

1 that are reflected in the rate structure. Correct?

2 A That's ECP. That's the ECP guideline, yes.

3 Q Would you be willing to limit the
4 application of the ECP rule to only those cost
5 elements or characteristics that can be workshared?

6 A No.

7 Q So ECP would apply equally to matters like
8 presort and destination entry, which can be
9 workshared, as well as weight and shape, which cannot.

10 A I'm not sure that I entirely understand your
11 question.

12 Q Well, let me ask it again.

13 A Maybe you should repeat it because I'm not
14 quite sure I understand.

15 Q Are you willing to limit the application of
16 the ECP rule to only those cost elements or
17 characteristics that can be workshared?

18 A It depends on what you mean by "workshare"
19 because mailers do all sorts of worksharing that are
20 maybe not entirely obvious. For example, I think
21 there was some discussion about this a couple of days
22 ago.

23 You may have mailers that are now mailing
24 flats who will do certain things to those flats, maybe
25 fold them or quarter-fold them or tab them or do

1 whatever, and that makes them a letter. It's at their
2 expense, and it saves the Postal Service money, and,
3 to me, that would be a form of worksharing, although
4 it's not the kind of worksharing that's been discussed
5 in this proceeding.

6 Q Well, let's take the issue of weight. When
7 a mailer determines the weight of a mail piece, do you
8 view that as something that can be workshared?

9 A To some extent, yes. I believe even Valpak
10 does that. It can reduce the weight of its piece. It
11 can reduce the weight of its paper. It can go from
12 full-size to half-size. There are different things
13 that can be done. I'm not saying, you know, it's a
14 whole --

15 Q What does "full size" and "half size" mean?

16 A A full sheet would be maybe eight-and-a-
17 half-by-11, and a half-sheet would be half of that.

18 Q I'm talking about weight at the moment. Do
19 you mean print on the less paper or lighter paper? Is
20 that what you're saying?

21 A Something like that. That can be done.

22 Q And you would consider that worksharing.

23 A Well, to the extent that it might be saving
24 weight-related costs for the Postal Service, and it
25 does cost something to the mailer, maybe not in

1 operational costs, but it would cost something to the
2 mail in terms of the value of that mail piece in terms
3 of response rate. Yeah, I think you can consider it
4 that way, too. These are decisions that mailers make
5 in order to reduce their postage, and when they reduce
6 their postage, they must be --

7 Q It's certainly not worksharing in the sense
8 of doing something that, otherwise, the Postal Service
9 would have to do to the mail, such as transport it or
10 sort it. Correct?

11 A Again, we need a definition of
12 "worksharing."

13 Q Okay. Would you look at page 15, please?
14 You have a sentence there that I've stumbled over. It
15 says: "Theoretically, when ECP principles --" this is
16 line 1 "-- are applied, shape-density rates should be
17 designed so that average piece revenue equals average
18 piece cost." Is that correct?

19 A Yes, sir.

20 Q Can you tell me what it means to design
21 rates so that average unit revenue equals average unit
22 cost?

23 A That would be marginal cost pricing.

24 Q So that means that you're setting rates
25 equal to costs without making any contribution to

1 overhead.

2 A This is a theoretical.

3 Q Well, we still have to recover institutional
4 costs, don't we, even if we used ECP principles?

5 A Then you would change that to say, so that
6 the difference between average piece revenues equals
7 the difference between average piece costs. That's
8 what you would say here. The difference between
9 average piece revenues would equal the difference
10 between average piece costs.

11 Q Are you suggesting that there is another,
12 better way to have written your sentence?

13 A Yeah. I understand now why you're confused.

14 Q Am I confused because I don't understand it
15 or that the sentence isn't right? You're not saying
16 that ECP principles lead you to a point where you
17 cannot recover institutional costs, are you?

18 A No. ECP principles don't really have --
19 Ramsey pricing or something of that nature is what
20 tells you how to go about doing things if you have
21 costs that are in excess of the variable costs, if you
22 have fixed, like institutional costs.

23 Q Okay.

24 A This is generally what you're trying to say
25 here is you want the revenue difference between any

1 two or three or four, however many types of rate
2 categories you have, to equal their cost differences
3 because those are the marginal cost differences, and
4 the marginal cost differences are what are considered
5 the correct price signals under ECP.

6 Q Okay. And if the ECP rule is used for every
7 element or characteristic in the rate structure,
8 doesn't that result in a contribution from each and
9 every piece within the subclass that is equal?

10 A Yes.

11 Q And that's what you say on page 15, lines 3
12 through 6 there. Correct?

13 A Yes. Let me make sure. I have to read it
14 first. Yes, sir.

15 Q I'm sorry. Yes?

16 A Yes, sir.

17 Q Okay. Thanks. And in standard mail, that
18 would mean, if each piece has an equal contribution,
19 in standard mail, would that not mean that a one-ounce
20 letter and a 15-and-a-half-ounce flat would pay the
21 same contribution to overhead?

22 A Under ECP principles, yes.

23 Q Okay. Can you explain what characteristics
24 the pound rate would have to have in order to comport
25 with ECP principles?

1 A It would have to be much lower. I don't
2 have a full estimate, but I think I've given you all
3 an estimate of what the weight-related cost looks like
4 for ECR, and so I would say it would have to be down
5 at that level somewhere.

6 Q Well, let's talk about a broader look at the
7 Postal Service. In first-class mail, the extra-ounce
8 rate is currently 24 cents. Would you accept that?
9 And that's equivalent to \$3.84 a pound. In your
10 opinion, does the extra-ounce rate reflect the cost of
11 extra weight in first class, or is it marked up?

12 A I am not real familiar with first class. I
13 would suspect it's marked up, but I honestly don't
14 know very much about first class.

15 Q In the design of priority mail rates, do you
16 know whether the cost of weight is marked up?

17 A No. I'm not familiar with priority mail.

18 Q In the design of parcel post rates, do you
19 know if the cost of weight is marked up?

20 A I have looked at parcel post just very
21 briefly, and, yes, that is marked up. The weight-
22 related cost is equal to two cents per piece plus
23 whatever the transportation cost is, and they do mark
24 that up.

25 Q Are you aware of the fact that the

1 Commission has held that the pound rate in standard
2 mail should have a markup on it?

3 A I'm not testifying as to what the Commission
4 has stated. I am simply saying that, under ECP
5 principles, the pound rate should be equal to the
6 pound-related cost.

7 Q When you appear as a witness and participate
8 in these cases, and the Commission issues its opinion
9 and recommended decision, you probably grab it like
10 the rest of us and want to see what happened.

11 A Well, that's a very good question. I see
12 the Commission has a lot of things that they must
13 balance, and I don't always agree, but I don't believe
14 that I should temper my opinion for that reason. I'm
15 trying to give the best information that I have in the
16 testimony.

17 MR. OLSON: If I may, I would like to show
18 you something from a prior opinion.

19 (Pause.)

20 BY MR. OLSON:

21 Q This is, as you can see, from Docket No.
22 R2000-1, and it's paragraph 5462. Do you see the
23 highlighted section?

24 A Yes, sir, I do.

25 Q The Commission said: "Including a markup on

1 the pound rate is logical since all of the rates
2 should recover attributable costs plus markup. Thus,
3 when the Postal Service proposes a pound rate, and
4 when the Commission recommends a pound rate, there is
5 an implicit cost coverage attached to both the piece
6 rate and the pound rate for mail above the break
7 point." Correct?

8 A I think you've read it correctly.

9 Q Okay. Could you explain how your views
10 about the pound rate compare and contrast with the
11 Commission's position?

12 A I think that we all should recognize that
13 the pound rate is exceptionally important in ECR. It
14 influences mailers' decisions considerably, and, in
15 addition, the cost that underlies that pound rate is
16 likely to be much lower than what you might estimate
17 under an implicit, 213-percent cost coverage.

18 The pound rate should be reduced, if not for
19 ECP purposes, although ECP would argue, ECP guidelines
20 are that the weight-related charge should be based on
21 the weight-related cost, but, in addition, lowering
22 the pound rate, putting less markup on it, would
23 generate additional volume.

24 More saturation mailers, at least flat
25 mailers, would become more successful and would be

1 able to expand their coverage areas, maybe even expand
2 the numbers of in-home dates. This is an example of
3 where you have not only an ECP guideline, but you also
4 have a price-sensitivity guideline, and, at least
5 based on what I know, I know that the sensitivity of
6 mailers to that pound rate is very high.

7 Q Let's take a look at your testimony on the
8 next page, 16, line 8. There, you calculate, I think,
9 what you call a "maximum pound cost" of 45.7 cents.
10 Is that correct?

11 A Yes.

12 Q I understand that what you say is a maximum,
13 but Let me just ask you this. If the Commission took
14 the position that pound rates should continue to be
15 marked up, would you tell me whether this maximum, or
16 whatever the proper pound rate cost is, should be
17 increased by whatever markup the Commission considers
18 appropriate?

19 A I wouldn't recommend that, no.

20 Q You would recommend no markup on the pound.

21 A I would recommend either zero or a very
22 small markup, for the reasons I've explained.

23 Q Well, let's take a look at the top of page
24 16, also where you discuss the relationship between
25 the piece rate and the pound rate, and you say,

1 "Because of the break-even constraint, if the pound
2 rate is too high, then the piece rates, in
3 combination, are too low." Correct?

4 A Yes, sir.

5 Q Is it your argument that Mr. Mitchell's
6 minimum per piece rates for letters and flats are too
7 low and that you would like to see the minimum per
8 piece rates for both letters and flats reduced?

9 A Would you repeat that, please?

10 Q Are you criticizing Witness Mitchell's
11 testimony, in that you say that the minimum per piece
12 rate for both letters and flats is too low, and you
13 would like to see the minimum per piece rates for
14 letters and flats increased?

15 A I think that a proper balancing of the rates
16 would increase the piece rates and reduce the pound
17 rate.

18 I would like to point out something else as
19 well, if you don't mind. When you're talking about
20 this markup, this cost coverage on the pound rate, I
21 have looked at that, and I've looked at that with
22 respect to the Postal Service's proposed rates and
23 also with Mr. Mitchell's rates, and we have a very
24 interesting piece of information in the record, and
25 that was one that the NAA requested, which was weight,

1 cost per piece by weight, and when you look at that,
2 you can compare cost per piece roughly below the break
3 point and roughly above the break point and compare
4 that to average revenue, and you will find that the
5 cost coverage for pieces roughly over the break point
6 is much higher than the cost coverage for pieces below
7 the break point, and that occurs regardless --

8 MR. OLSON: There is no question pending.
9 Mr. Chairman, if counsel wants to go into this on
10 redirect, I have no objection, but I don't have a
11 question pending. The witness just started saying, By
12 the way, I have one more thing to say.

13 THE WITNESS: Excuse me. I believe that you
14 asked --

15 MR. OLSON: Mr. Chairman, if I could ask a
16 question.

17 THE WITNESS: Excuse me. He asked me about
18 a markup on piece and --

19 MR. OLSON: No.

20 THE WITNESS: You asked me about the
21 rebalancing of piece and pound.

22 MR. OLSON: I'll re-read the question. I'll
23 re-read the question.

24 THE COURT: Allow him to restate the
25 question. Thank you.

1 THE WITNESS: I'm sorry.

2 BY MR. OLSON:

3 Q Is it your argument that Mr. Mitchell's
4 minimum per piece rates for flats and letters are too
5 low, and you would like to see the minimum per piece
6 rates for both letters and flats increased?

7 A Yes, and I will explain. Because when you
8 compare average revenue minimum per piece for both
9 letters and flats, you compare the minimum per piece
10 cost to the minimum per piece revenue, and then you
11 compare the revenue and cost for pieces over the break
12 point. You look at those two. The cost coverage for
13 pieces over the break point is way higher than the
14 cost coverage for pieces below the break point.

15 So even if you are looking at cost coverage
16 and you use that as your decision rule, still you need
17 that rebalancing, which is --

18 Q I'm not sure this has anything to do with my
19 question. Let me just go to the next question and
20 say, are you saying that Mr. Mitchell did not propose
21 a reduction in the rates for pound-rated pieces, or
22 are you saying that he didn't reduce them far enough
23 to suit you?

24 A He used the pound rate that was proposed by
25 the Postal Service, which is a slight reduction. So

1 he did propose a slight reduction, the same slight
2 reduction the Postal Service proposed.

3 Q Okay. Take a look at footnote 23, please,
4 where you say at the end of that, the next-to-the-last
5 line, "Then he should have reduced the pound rate by
6 at least the same amount as he reduced the piece
7 rate." Do you see that?

8 A Yes.

9 Q Okay. Can we agree, at least, that for
10 pound-rated mail that the total postage that a mailer
11 pays consists of both a piece rate and a pound rate?

12 A Yes, sir.

13 Q Okay. And if the pound rate is held
14 constant -- this is my question -- if the pound rate
15 is held constant, do you agree that if you reduced the
16 minimum percent piece rate by X cents that you would
17 also reduce the piece rate paid by those pound-rated
18 pieces?

19 A Yes.

20 Q So, in terms of the total postage bill for
21 pound-rated mail, isn't it the case that when the
22 minimum per piece rate is decreased by X cents, that
23 the pound rate mail also get a decrease exactly equal
24 to the decrease received by the minimum per piece
25 mailers?

1 A They are facing the same piece rate, so yes.

2 Q So your position is not that Mr. Mitchell
3 proposed rates -- well, I think you answered that.

4 The pound-rated pieces of ECR mail certainly
5 benefit from the proposed reduction in ECR coverage
6 that Witness Mitchell proposes. Correct?

7 A Pound-rated pieces benefit, yes.

8 Q Okay. Let's ask you to look at page 22,
9 please, line 14. There you have a summary of Ramsey
10 pricing. Correct?

11 A Yes, sir.

12 Q Would you agree that, both here and where
13 you discuss it on the next page, that you limit the
14 application of Ramsey pricing to subclasses?

15 A On this discussion, generally what I'm
16 saying is that it's generally used for subclasses,
17 yes.

18 Q And is that your opinion, that Ramsey
19 pricing should be used only for subclasses?

20 A Ramsey pricing is a pretty sophisticated
21 tool. Generally, Ramsey pricing says that the more
22 price-sensitivity types of mail should get a lower
23 markup. I agree with Witness Panzar that if you do
24 not know anything about the price sensitivities of the
25 mail that are included in the subclass, then really

1 what you should be doing is using Ramsey pricing only
2 at the subclass level and ECP below the subclass
3 level.

4 Q So is it your position that none of the
5 noncost factors of the act in 3622(b) should be
6 applied within a subclass?

7 A No. Absolutely not. I'm trying to provide
8 some economic testimony here, and those other factors
9 are not something that I have a whole lot to say
10 about. I recognize them, and I understand what some
11 of them mean, but I'm going to leave most of that to
12 the policy people.

13 Q Let me see if I understand. Is it your
14 general position that you recommend ECP for pricing
15 within all classes of mail, not just standard ECR?

16 A Okay. Again, ECP is a concept, a theory. I
17 think a lot of other people in this proceeding have
18 explained and argued that sometimes you can't just
19 rigidly apply a theory to a subclass, particularly
20 with respect to the Postal Service, where you have
21 some very large subclasses that contain a lot of
22 different kinds of mail in them.

23 I am just trying to explain what these
24 theories and concepts are in this particular section,
25 and I do agree that if you don't have any other

1 information on price sensitivity, that ECP is the best
2 that you're going to be able to get to, unless you're
3 making some judgments about those 3622(b) factors, or
4 whatever they are.

5 Q Okay. On page 24, you summarize ECP, and in
6 the summary at the top of the next page, page 23, line
7 2, you use the phrase, "dynamic efficiency." Could
8 you give me a definition of "dynamic efficiency"?

9 A Okay. That's a good question. What I meant
10 there was sometimes people use that term when they
11 mean that you want to improve efficiency over a longer
12 period of time than just the immediate period, and I
13 kind of meant that. But what I really meant was
14 dynamic efficiency in terms of promoting good
15 competition, efficient competition, within the markets
16 that the mailers compete.

17 Q Are you familiar with the concept of dynamic
18 efficiency discussed by Postal Service Witness Richard
19 Schwansey in Docket No. MC95-1?

20 A I vaguely remember reading that, and he had
21 three different kinds of efficiencies that he was
22 talking about. I haven't read that in years, but I do
23 remember that, yes.

24 Q Do you have differences in the way you use
25 the term from the way he used the term?

1 A I honestly would have to go back and look,
2 but I believe that for dynamic efficiency, he would
3 probably say that it does encompass competitive
4 efficiencies due to good competition and that it would
5 also encompass more than just the immediate period,
6 that you want to look at improving efficiency over a
7 longer time period.

8 Q I know you said before that you generally
9 didn't spend a lot of time with first-class mail, but
10 I want to ask you a question to get to a point that's
11 applicable to ECR.

12 In first-class mail, do you believe the
13 contribution from a two-and-a-half-ounce letter, which
14 currently pays 87 cents, is about the same as the
15 contribution of a half-ounce letter, which has a rate
16 of 39 cents?

17 A You have two and a half ounces, 87 cents;
18 and then a half-ounce, which is --

19 Q -- the minimum rate, 39 cents.

20 A And what is your question again?

21 Q The question is, do you believe that the
22 contribution from each of those pieces is about the
23 same?

24 A I have no idea. I honestly could not answer
25 that. I don't even know what kind of piece you're

1 talking about. I really couldn't say.

2 Q Well, let's say they are both letters, a
3 two-and-a-half-ounce letter and a half-ounce letter.
4 You wouldn't have any basis to say, for example,
5 whether the unit contributions were relatively close
6 or substantially different if I gave you those two
7 choices.

8 A I would guess that they are different, but,
9 honestly, I don't know anything about first class.

10 Q With respect to priority mail, if you had a
11 50-pound package that went to Zone 8, the rate, I
12 would ask you to assume, is \$92.70, and I would like
13 to ask you to compare that to a two-pound package to
14 Zones 1 and 2, which pays a rate of \$4.20. Same
15 question: Would you have a view as to whether the
16 unit contribution is relatively close or substantially
17 different?

18 A No, sir, I would not.

19 Q You don't think it varies quite a bit. One
20 is \$92.70, and the other is \$4.20.

21 A It looks like it might, but, again, I don't
22 know what's involved with priority mail.

23 Q How about out-county periodicals? Do you
24 believe that the unit contribution paid by all
25 magazines is approximately equal?

1 A Outside-county periodicals, and you want the
2 unit cost --

3 Q -- paid by different types of magazines.
4 This is a controversial issue.

5 A I know there's controversies about that and
6 that they are trying to get -- I know vaguely there
7 are controversies about that where you have editorial
8 discounts and advertising prices, and I just don't
9 know anything more about it than that.

10 Q In parcel post, where you have a 60-pound
11 piece to Zone 8 that pays \$41.49, do you think that
12 the contribution there is about the same as a two-
13 pound piece to Zones 1 and 2 that pays \$4.06?

14 A Two dollars and --

15 Q A two-pound piece to Zones 1 and 2 that pays
16 \$4.06.

17 A And the other one was?

18 Q A 60-pound piece to Zone 8 that pays \$41.49.
19 Do you think the unit contribution is relatively close
20 or substantially different?

21 A It's probably different because, as we
22 mentioned earlier, I do know very little about parcel
23 post, but I know enough to know that they do mark up
24 the transportation costs and that two-cent,
25 nontransportation weight cost.

1 Q What I'm trying to get at -- please take a
2 look at what you say on page 21. In your summary, I
3 guess, criticism of Mr. Mitchell, you say, line 20,
4 "When developing rates within a subclass, the accepted
5 approach, as clearly explained by Dr. Panzar in this
6 proceeding, is to employ ECP principles that tend
7 toward equalizing unit contributions from all subclass
8 pieces." Do you see that?

9 A Yes, sir.

10 Q If the unit contributions from different
11 pieces within first-class mail and priority and
12 periodicals and parcel post all differ substantially
13 because of rates that the Postal Service has proposed
14 and the Commission has adopted or modified, by whom
15 has this concept of equal unit contribution been
16 accepted?

17 A Okay. I think I've already explained that
18 ECP is appropriate when the price sensitivities within
19 a subclass are reasonably close among all of the
20 different products. I don't know what's going on in
21 first class, priority mail, outside-county
22 periodicals, or parcel post. There may be other
23 things going on there.

24 As I've explained, there is a little bit of
25 an art to this rate-making. There are other reasons

1 why these things might be occurring. Some, in fact,
2 might be just simply because it's historical
3 precedent. I'm trying to come up with some benchmark
4 efficiency concepts that I can use to compare for ECR,
5 and ECR is what I am testifying to.

6 I think, within ECR -- it's not a real large
7 subclass, but it's a pretty good-size subclass -- I
8 think there are groupings within ECR that might
9 warrant something other than ECP, but ECP is one way
10 to look at the efficiency of rates, and I think that
11 it's appropriate to look at that in terms of what is
12 being proposed as sets of rates for ECR.

13 MR. OLSON: Okay. Well, thank you very
14 much, Ms. Crowder. I have no more questions, Mr.
15 Chairman.

16 MR. ACTON: Thank you, Mr. Olson. Is there
17 any follow-up cross-examination?

18 (No response.)

19 MR. ACTON: Questions from the bench? I'm
20 sorry. Mr. Scanlon.

21 CROSS-EXAMINATION

22 BY MR. SCANLON:

23 Q Michael Scanlon on behalf of Pitney Bowes.
24 Hello, Ms. Crowder.

25 A Hello.

1 Q In your discussion with Mr. Olson regarding
2 the extended application of ECP to better align prices
3 with costs within a subclass --

4 A Yes, sir.

5 Q -- you identified the need for a workable
6 definition of "worksharing." Is that correct?

7 A Yes, sir.

8 Q I would like to show you -- what I'm handing
9 you is a copy of page 7 of Dr. Panzar's testimony.

10 A This is great.

11 Q I'm sorry?

12 A I had forgotten -- I must have read this at
13 one time.

14 Q And at the top of page 7 there, you see that
15 Dr. Panzar offers a broad definition of "worksharing."
16 He states, "Worksharing refers to any private sector
17 activity which reduces the cost of the Postal
18 Service."

19 Would you agree that that's a reasonable
20 definition of "worksharing"?

21 A Yes, sir. I can give you several examples
22 of it.

23 Q Go ahead, please.

24 A I've had quite a bit of discussion with one
25 of my clients, Advo, and they do a lot of, at least in

1 ECR, they do a lot of mail, not just saturation, but
2 they do what they call "solo mail," and what that is,
3 is solo mail is a piece of mail from an individual
4 advertiser by itself, and they have given me several
5 examples of situations where that advertiser, who has
6 a particular purpose in mind for its advertisement,
7 will consider various types of pieces in weight and
8 shape and other dimensions as well.

9 Sometimes they even consider those odd-size
10 pieces, and it all depends on what they expect their
11 response rate will be to what it's going to cost them
12 to get this thing out the door, including postage, and
13 mailers will change shape, they will change weight, if
14 the cost response rate warrants it.

15 So they are making decisions. Advertisers,
16 and I believe this probably also occurs in other
17 standard mail, but, in ECR, advertisers who do solo
18 mailings make these decisions all of the time, and, in
19 some cases, what they will do is sometimes they will
20 mail one piece and then separately mail a different
21 piece for the same purpose, to see which is going to
22 give them the best response rate for the cost per
23 response.

24 So this occurs all of the time. It's very
25 frequent, at least with solo mail.

1 MR. SCANLON: Great. Thank you.

2 Nothing further, Commissioner Acton.

3 COMMISSIONER ACTON: Thank you, Mr. Scanlon.

4 Any further cross?

5 (No response.)

6 COMMISSIONER ACTON: Questions from the

7 bench?

8 (No response.)

9 COMMISSIONER ACTON: Mr. McLaughlin, would
10 you like a few moments?

11 MR. McLAUGHLIN: Yes. I think, five
12 minutes.

13 COMMISSIONER ACTON: Thank you.

14 (Whereupon, a short recess was taken.)

15 COMMISSIONER ACTON: Please.

16 MR. McLAUGHLIN: Thank you very much.

17 REDIRECT EXAMINATION

18 BY MR. McLAUGHLIN:

19 Q Ms. Crowder, I would like to first refer you
20 to page 16 of your testimony. Mr. Olson had some
21 questions there where he characterized your testimony
22 as presenting an analysis of an upper bound of weight-
23 related costs. I would like to refer you very
24 specifically to the sentence starting at line 5 of
25 page 16 and also on line 8. Do you consider that

1 estimate that you made to be simply an upper bound of
2 weight-related costs?

3 A What I have here, I say, starting on line 5,
4 is an extreme estimate of the maximum ECR marginal
5 weight-related costs can be made, and that extreme
6 estimate is the 45.7 cents. I should have pointed out
7 that that includes all piece-related costs in there,
8 but I'm just assuming that all piece-related costs are
9 also pound rated.

10 Q In other words, for calculating the 45.7
11 cents cost, you assumed that within ECR there is no
12 piece-related cost whatsoever, that it's 100-percent
13 pound related.

14 A That's exactly right. There is another
15 estimate that you can make here, and it has to do with
16 just looking at what they do in parcel post. Parcel
17 post assumes that the weight-related cost is two cents
18 per piece, no matter what the size of the piece, plus
19 the transportation cost.

20 Okay. Well, if you were to do that for ECR,
21 what we have is a drop-ship cost of about -- I think
22 it's 24.1 cents. When you add two cents to that, it's
23 not getting you very much. That's what, 26 cents?
24 And even that might be too high. But that would be
25 based on two cents out of parcel post, which is

1 completely -- you know, they have got to be more
2 expensive than ECR pieces.

3 Q In other words, that estimate that you have
4 there, as you say, must be considered well above an
5 upper bound.

6 A Absolutely, and I am absolutely convinced
7 that even the pound rate that I include in my sample
8 rates includes a huge cost contribution to
9 institutional costs.

10 Q So if you were going to be marking up a
11 pound rate, you wouldn't mark up something anywhere
12 close to the 45.7 cents, would you?

13 A No. Absolutely not. I've pointed out
14 before, I looked at the Postal Service's rates, and I
15 compared them to the costs in that NAA set of cost-by-
16 weight increment, and even with the Postal Service's
17 costs, pound-rated mail is making a very, very large
18 contribution by comparison to piece-related mail.

19 Q And were you referring there to NAA
20 Interrogatory NAA/USPS-1?

21 A Yes. I believe that's it.

22 Q Mr. Olson also asked you about, under your
23 assumption that 50 percent of DALs would convert, that
24 the remaining 50 percent of DALs that stay in the
25 system, the surcharge that's proposed for the Postal

1 Service would not fully cover the cost difference,
2 even though the rate paid by that mail would far more
3 than cover its total costs. Do you recall that?

4 A Yes, I do.

5 Q And he was asking you, what do you do with
6 that shortfall in contribution? Who should bear it?
7 To start with, is 50 percent, in your view, a
8 reasonable estimate of the amount of current DAL
9 mailings that will convert to on-piece addressing?

10 A No. I used 50 percent to be conservative
11 and to make the point that there will be cost savings
12 in the test year. I personally know that Advo and
13 Hart Hanks are going to on-piece addressing, and they
14 are the two biggest mailers of DALs in saturation.
15 I've estimated that the Advo and Hart Hanks would be
16 well over 87 percent of all DALs they represent. In
17 addition, I know that there are other SMC mailers who
18 plan on converting. So I believe there will be a
19 relatively small amount of DALs in the system.

20 In addition, I know that for some of the SMC
21 mailers who are not converting, they are going to
22 private delivery because of the DAL surcharge and the
23 higher pound rate. I personally know of one example
24 in Florida where they were in the mail stream, and
25 they are now converting -- I believe it's 400,000

1 households weekly to private delivery for those two
2 reasons: because the pound rate is too high for them,
3 they want to remain successful, and the DAL surcharge.
4 They are not sure that the Postal Service is going to
5 allow them to do simplified on city routes, and they
6 are having difficulty putting an address on their
7 piece.

8 MR. McLAUGHLIN: I have no further
9 questions.

10 COMMISSIONER ACTON: Thank you, Mr.
11 McLaughlin. Any further questions?

12 (No response.)

13 COMMISSIONER ACTON: There being none, this
14 completes your testimony here today, Witness Crowder.
15 Thank you for your time and your contribution to the
16 record. You're excused.

17 (Witness excused.)

18 COMMISSIONER ACTON: Let's take an hour for
19 lunch and come back at one-fifteen, please.

20 (Whereupon, at 12:15 p.m., a luncheon recess
21 was taken.)

22 //

23 //

24 //

25 //

A F T E R N O O N S E S S I O N

(1:15 p.m.)

COMMISSIONER ACTON: Are we ready?

MR. BAKER: Yes. The Newspaper Association of America calls Allan T. Ingraham to the stand.

COMMISSIONER ACTON: Mr. Ingraham, I believe you've already been sworn in.

Whereupon,

ALLAN T. INGRAHAM, Ph.D.

having been previously sworn, was recalled as a witness and was examined and testified further as follows:

MR. BAKER: I'm going to present the witness with two copies of a document entitled, "The Rebuttal Testimony of Allan T. Ingraham on Behalf of the Newspaper Association of America," designated NAA-RT-2, with a notation, "Final as of December 1, 2006," which date we filed some errata to it.

DIRECT EXAMINATION

BY MR. BAKER:

Q Mr. Ingraham, is this the testimony that was prepared by you or under your guidance?

A Yes, it was.

Q (Mike off.)

CHAIRMAN OMAS: Is there objection?

1 (No response.)

2 CHAIRMAN OMAS: Hearing none, I will direct
3 counsel to provide the reporter with two copies of the
4 corrected testimony of Allan T. Ingraham. That
5 testimony is received into evidence and is to be
6 transcribed into the record.

7 (The document referred to was
8 previously marked for
9 identification as Exhibit No.
10 NAA-RT-2 and was received in
11 evidence.)

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NAA-RT-2

FINAL (Dec. 1, 2006)

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

REBUTTAL TESTIMONY OF ALLAN T. INGRAHAM
ON BEHALF OF
THE NEWSPAPER ASSOCIATION OF AMERICA

Date: November 20, 2006

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INTRODUCTION AND QUALIFICATIONS

1
2 My name is Allan T. Ingraham. I am Senior Vice President of Criterion
3 Criterion Auctions, LLC, 1620 Eye St., N.W., Suite 800, Washington, D.C., 20006.
4 My qualifications and background are presented in my direct testimony in this
5 proceeding.

6 This is my second appearance as a witness before the Postal Rate
7 Commission. In this rate case I submitted direct testimony on behalf of the
8 Newspaper Association of America on rate setting for Enhanced Carrier Route mail
9 with on-piece addressing and with Detached Address Labels.

10 I am testifying on behalf of the Newspaper Association of America. My
11 testimony responds to the testimony of Val-Pak witness Robert W. Mitchell (VP-T-1)
12 and Mail Order Association of America witness Roger Prescott (MOAA-T-1)
13 regarding certain technical shortcomings in their analyses. In addition, certain
14 analyses in the testimony of witnesses Mitchell and Prescott are either flawed or
15 incomplete, which calls into question the validity of their conclusions.

16 **I. SUMMARY OF KEY ELEMENTS IN WITNESS MITCHELL'S AND WITNESS PRESCOTT'S**
17 **TESTIMONY**

18 Witnesses Mitchell and Prescott both recommended a decrease in Standard
19 ECR rates, claiming that the cost coverage of ECR mail is too high. Witness Mitchell
20 advocated an offsetting increase in Standard Regular rates. Witness Prescott did
21 not offer a recommendation as to how to offset a reduction in contribution from ECR
22 mail. To support their recommendation, these witnesses rely, in part, on elasticity of
23 demand estimates provided by USPS witness Thress. For example, Mitchell claims

1 that if the own-price elasticity of demand for ECR is -1.1 (the approximate long-run
2 elasticity for ECR that Thress estimated), then increasing the price of the subclass
3 causes the revenues generated by that subclass to decline.¹ He expands on this
4 point by stating that the value of the type of mail in question is reduced, at the
5 margin, by increasing rates above marginal cost:

6 I discuss the concept of value in some detail, including its relation to
7 notions of economic efficiency. I point out, and show graphically, that
8 value is lost when, through application of a cost coverage, rates are
9 increased above costs, and that the problem is particularly acute
10 when the elasticity is high.²

11 Furthermore, Mitchell cites the difference in Thress' elasticity estimates between
12 ECR and Standard Regular as evidence that the rates for ECR should be lowered
13 and the rates for Standard Regular should be raised:

14 In this docket, Postal Service witness Thress estimates the own-
15 price elasticity of Commercial ECR to be -1.079 and of Commercial
16 Regular to be -0.296. USPS-T-7 at 9.³

17 Therefore, Mitchell also supports his rate design based on elasticity estimates
18 generated by the Postal Service in this rate case and on his projection of those
19 estimates into the value of ECR mail and Standard Regular mail.

20 Finally, witness Prescott argues that the elasticity of demand for ECR mail
21 has increased since 1997:

22 The own-price elasticity of rates for ECR mail has changed from -
23 0.598 in R97-1 to -1.080 in R2006-1.¹⁴ The increasing elasticity

¹ Testimony of R. Mitchell, VP-T-1, on behalf of Valpak Direct Marketing Systems, Inc. and Valpak Dealer's Association, Inc., before the Postal Rate Commission, Postal Rate and Fee Changes, Dkt. No. R2006-1, at 47.

² *Id.* at 73.

³ *Id.* at 74-75.

1 means that rate increases in R2006-1 will create a greater decline in
2 volume than caused by the increased rates in R97-1.⁴

3 Based on what he states is an increasing elasticity of demand for ECR mail, Prescott
4 argues for a reduction in that mail's contribution to institutional costs.

5 **II. ANALYTICAL FLAWS IN THE TESTIMONY OF WITNESSES MITCHELL AND PRESCOTT**

6 I have identified two analytical shortcomings in witnesses Mitchell's and
7 Prescott's testimony. First, witnesses Mitchell and Prescott incorrectly conclude that
8 either revenues from ECR mail would necessarily decrease were the cost coverage
9 of that mail increased, or that the elasticity of demand for ECR mail has risen over
10 time. The Thress elasticity figure is subject to sufficient statistical uncertainty as to
11 undermine the validity of their conclusion. Second, elasticity by itself does not
12 determine the value of the good in question. To determine the total value of a good
13 or service, one generally relies on a measure such as consumer surplus,
14 compensating variation, or equivalent variation, which, when applied over the entire
15 range of consumption, considers the characteristics of the entire demand curve.

16 **A. Mitchell and Prescott Incorrectly Assume that Revenues from Standard**
17 **Enhanced Carrier Route Mail Would Necessarily Decrease Were the**
18 **Cost Coverage of that Subclass Increased**

19 Given the estimates of the own-price elasticity of demand for ECR mail
20 presented in this rate case, it is not statistically valid to say that an increase in the
21 price of ECR mail will cause that mail's revenue to decline. A confidence interval
22 surrounds any regression estimate, and the confidence interval surrounding Witness

⁴ Testimony of R. Prescott, MOAA-T-1, on behalf of Mail Order Association of America, before the Postal Rate Commission, Postal Rate and Fee Changes, Dkt. No. R2006-1, at 10.

1 Thress' estimate of the elasticity of demand for ECR contains a large range of price
2 inelastic values. Furthermore, the testimony by GCA witness Clifton indicates that
3 the Postal Service's regression methodology may be unreliable.

4 **1. The 95 Percent Confidence Interval Surrounding Thress' Estimate of the**
5 **Elasticity of Demand for Standard Enhanced Carrier Route Mail Includes**
6 **Values That Are Price Inelastic**

7 Postal Service witness Thress estimated that the own-price elasticity of
8 demand for ECR is -1.0789.⁵ Witnesses Mitchell cited Thress' estimate as evidence
9 that an increase in the rate for ECR mail would result in a decline in the revenue of
10 that mail. Witness Prescott stated that this elasticity estimate, coupled with
11 estimates in prior rate cases, shows that the elasticity of demand for ECR has risen
12 over time. However, under two common and widely accepted measures of
13 econometric accuracy—one-sided t-test and the confidence interval surrounding
14 Thress' estimate—Thress's estimate is subject to inaccuracy that is sufficient to
15 refute those claims. Thus, Mitchell and Prescott's conclusions that a rate increase
16 for ECR will reduce postal revenues or is becoming counter-productive are subject
17 to statistical uncertainty. In other words, given Thress's estimate, one simply
18 cannot say whether the price elasticity of Standard ECR is elastic or inelastic.

19 The most direct way to determine whether or not Thress' estimates allow one
20 to conclude statistically that the demand for ECR is price elastic is to construct a

⁵ Testimony of T. Thress, USPS-T-7, on behalf of the United States Postal Service, before the Postal Rate Commission, Postal Rate and Fee Changes, Dkt. No. R2006-1, at 122. I am aware that testimony from witnesses Clifton and Kelejjan find fault with Thress' methodology. However, in this section my testimony I presume that Thress' methods and estimates for ECR mail are reasonably accurate. Since both Mitchell and Prescott base a portion of their testimony on Thress' findings, my testimony here considers whether or not Mitchell and Prescott correctly considered the entirety of Thress' ECR estimates as it relates to their rate proposals.

1 one-tailed or one-sided t-test. That is, using Thress' estimates one can test whether
 2 or not -1.079 is *less than -1.0 in a statistical sense*.⁶ One can presume beforehand
 3 that the demand for ECR is indeed price *inelastic* and then use statistical methods to
 4 determine if that hypothesis is so incorrect that one can reasonably conclude the
 5 alternative—namely that ECR is price elastic.

6 To generate the statistic for the one-tailed test, one must first note that the
 7 standard error associated with Thress' long-run ECR elasticity estimate is 0.175.⁷
 8 Given this information, the statistic for the one-tailed that determines whether -1.079
 9 is statistically less than -1 is given as follows:⁸

$$10 \quad (1) \quad \frac{-1 - (-1.079)}{0.175} = \frac{0.079}{0.175} = 0.451$$

11 The "critical value" for this test, presuming a 95 percent level of statistical
 12 accuracy, is 1.645. Because the test statistic in equation 1 does not exceed 1.645,
 13 one cannot conclude that the demand for ECR is price elastic.

14 In addition to the one-sided test described above, one can also use the
 15 confidence interval that surrounds Thress' elasticity estimate to show that it is not
 16 different from a whole range of inelastic values. Any regression parameter is
 17 surrounded by a confidence interval. Loosely speaking, values within that confidence

⁶ This test is referred to as one-sided because one tests the conjecture that elasticity is less than -1. The test most commonly used in econometrics is the two-sided test, which tests whether or not a parameter is *different from* a specific number (usually zero). Because no prior is given to the direction of difference (whether the parameter exceeds or is less than the specific number of interest) that test implicitly has two sides.

⁷ The standard error of the elasticity estimate is found by dividing that elasticity by its t-statistic. Hence, the standard error associated with Thress' elasticity for ECR is -1.079 / -6.159 = 0.175. See, e.g., DAMODAR N. GUJARATI, BASIC ECONOMETRICS 124 (McGraw-Hill 3rd ed., 1995).

⁸ *Id.* at 124-26.

1 interval are all statistically equivalent to the regression coefficient in question. That
2 is, one cannot dismiss the statistical conjecture that the regression parameter in
3 question is different from any value that resides within its associated confidence
4 interval. As I explain below, the confidence interval surrounding Thress' ECR
5 elasticity estimate includes a large range of price inelastic values.

6 With a standard error of 0.175, the 95 percent confidence interval surrounding
7 Thress' elasticity estimate is given as follows:⁹

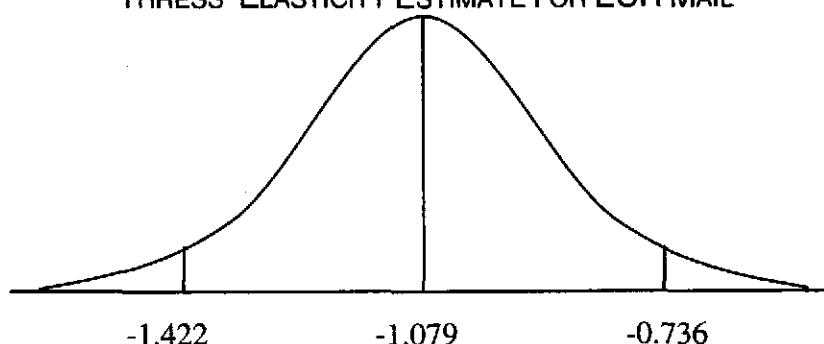
8 (2) $(-1.079 - 1.96 \times 0.175, -1.079 + 1.96 \times 0.175)$.

9 After performing the calculation in Equation 2, one finds that the 95 percent
10 confidence interval surrounding Thress' elasticity estimate is $(-1.422, -0.736)$, which
11 is visually represented in Figure 1.¹⁰

⁹ *Id.* at 118-19.

¹⁰ I also note that this confidence interval includes the ECR elasticity estimate calculated by witness Thress in R2001-1. See Testimony of T. Thress, USPS-T-8, on behalf of the United States Postal Service, before the Postal Rate Commission, Postal Rate and Fee Changes, Dkt. No. R2001-1, at 53 (listing an ECR elasticity sum of -0.770). Therefore, one cannot even reject at the 95 percent level of confidence the null hypothesis that Thress' ECR elasticity estimate in *this* rate case (-1.079) is different from the specific point estimate in Thress' 2001 testimony. Finally, I note that for witness Prescott to conclusively say that the price elasticity of ECR has increased over time, he should have conducted a test for structural change—sometimes referred to as a "Chow test." Such a test would allow one to either reject or not reject the null hypothesis that ECR elasticity has remained constant over a period of time. Given that no witness in the proceeding has, to my knowledge, performed such a test for ECR elasticity changes, I see no statistical reason for one to conclude that the price elasticity of demand for ECR has changed over time.

FIGURE 1: THE 95 PERCENT CONFIDENCE INTERVAL SURROUNDING
THRESS' ELASTICITY ESTIMATE FOR ECR MAIL



As Figure 1 indicates, the 95 percent confidence interval surrounding witness Thress' elasticity estimate for ECR mail contains both elastic and inelastic values. Therefore, neither Mitchell nor Prescott can reject the null hypothesis, based on Thress' estimates, that the own-price elasticity of demand for ECR is, say, -0.75, a value that is price inelastic and is closer to zero than the point estimate that witness Thress calculated in R2001-1.

2. Testimony by Witness Clifton Reveals that the Postal Service's Estimates of the Elasticity of Demand for Standard Regular and Standard Enhanced Carrier Route Mail May Be Unreliable

Witness Clifton's testimony in this case on behalf of the Greeting Card Association casts additional doubt on the accuracy of certain elasticity estimates presented by Thress. In particular, Clifton found that the elasticity of demand for First Class Mail is more price sensitive than the elasticity estimated by Thress. On the surface, and without a discussion of the econometric intricacies involved in both Thress' and Clifton's testimony, this result accords with my understanding of how electronic communication has developed into a viable substitute for First Class Mail.

1 The companion rebuttal testimony of J. Gregory Sidak (NAA-RT-2) also addresses
2 electronic substitution and broadband deployment.

3 In addition to his analysis of the price elasticity of demand for First Class Mail,
4 Clifton also found that the elasticity of demand for Standard Regular mail was price
5 inelastic. Furthermore, he found that elasticity to be smaller than his elasticity
6 estimate for First Class Mail. Put differently, Clifton found that First Class Mail is
7 more sensitive to price than Standard Regular mail. Although Clifton's testimony did
8 not provide an elasticity estimate for ECR, he did state in his response to an
9 interrogatory from the Direct Marketing Association that he believed that ECR was
10 price *inelastic*, but more sensitive to price than Standard Regular.¹¹

11 When added to the one-sided hypothesis test and the confidence interval
12 analysis that I derived from Thress' econometric results, Clifton's statement
13 regarding the price insensitivity of ECR seems reasonable. That is, Thress' results
14 cannot reject the null hypothesis that the demand for ECR is inelastic. Therefore,
15 there is insufficient statistical evidence in this rate case for witnesses Mitchell and
16 Prescott to conclude that an increase in the price of ECR will result in a decrease in
17 the revenues for that mail. Put differently, witnesses Mitchell and Prescott cannot
18 reject the statistical conjecture that a 1 percent *decrease* in the price of ECR mail will
19 result in a less than 1 percent increase in the volume of that mail. For this reason,
20 their testimony, which concludes that an increase in the price of ECR will result in a
21 decline in ECR revenues is inaccurate in a statistical sense.

¹¹ Response of Greeting Card Association Witness Clifton, Tr. 29/9797.

1 **B. Elasticity of Demand Does Not by Itself Determine the Value of a Good**
2 **or Service**

3 Both Prescott and Mitchell place considerable emphasis on the estimated
4 own-price elasticity of demand for Standard ECR mail presented by witness Thress.
5 Leaving aside whether the possible errors in Thress's model identified by Clifton
6 may also affect his estimate of the own-price elasticity of demand for Standard ECR
7 mail, there are other reasons why elasticity of demand does not by itself determine
8 the value of the mail subclass.

9 Specifically, elasticity looked at in isolation informs the value of the good in
10 question to the marginal consumer only. By contrast, the value of an entire subclass
11 of mail is determined by the demand curve for that subclass over the entire range
12 where that mail is purchased. Put differently, by characterizing value of service as
13 being driven only by elasticity, Mitchell and Prescott consider only the value of the
14 last piece of mail sent and disregard the value derived from the majority of the mail.

15 The importance of this issue to the Postal Service is that since Standard
16 Commercial mail will soon exceed First Class Mail in volume, the total value of
17 Standard Commercial mail will eventually exceed the *total* value of First Class Mail¹²
18 even if the elasticity of demand for First Class Mail is found to be smaller—that is,
19 less sensitive to price—than the elasticity of demand for Standard Regular and ECR
20 mail. Consequently, the application of value at the margin, which Mitchell and
21 Prescott both employ within the Standard Commercial subclasses, distracts from the
22 more important issue: the value of what was once, in terms of volume, the most

¹² Measurement of total value is typically performed using consumer surplus, compensating variation, or equivalent variation.

1 important mail class (First Class) in comparison to the value of what is now
2 becoming the most important type of mail (Standard Commercial).¹³

3 **CONCLUSION**

4 Due to analytical shortcomings in the testimony of those witnesses, the
5 Commission should reject the proposals by Val-Pak witness Mitchell and MOAA
6 witness Prescott to reduce the institutional cost contribution of Standard ECR mail.
7 Both witnesses Mitchell and Prescott argue for a reduction in ECR rates based on
8 the elasticities of demand for that subclass. However, they do not have sufficient
9 statistical evidence in this rate case with which to conclude that ECR is price elastic.
10 Therefore, if one looks at elasticities alone, it is not a foregone conclusion that ECR
11 will be unable to sustain further rate increases without suffering a decline in
12 revenues.

13 Furthermore, in determining the value of a service, one should consider not
14 only the price elasticity of demand, but also the volume of demand consumed—that
15 is, one should consider the entire demand curve. Considering price elasticity alone
16 provides an indication of the value to the marginal mailer, but not of the entire
17 subclass.

¹³ Tr. 25/8987-8988.

1 CHAIRMAN OMAS: This now brings us to oral
2 cross-examination. Two parties have requested oral
3 cross. Mr. Todd, you may begin -- oh, excuse me.

4 MR. McLAUGHLIN: I'm sorry, Mr. Chairman. I
5 did speak with counsel for NAA to explain that I would
6 have some questions. I could go later, or I can go in
7 the ordinary order now, if you would like. I don't
8 care.

9 MR. TODD: Mr. Chairman, perhaps I can atone
10 for past sins by deferring to Mr. McLaughlin.

11 CHAIRMAN OMAS: Well, I don't know, Mr.
12 Todd. You haven't any sins. But if you wish to allow
13 Mr. McLaughlin to go, we'll do so, and you should
14 thank the gentleman.

15 MR. McLAUGHLIN: I do. I do. Thank you
16 very much, Mr. Todd.

17 CROSS-EXAMINATION

18 BY MR. McLAUGHLIN:

19 Q Is it Dr. Ingraham?

20 A That's correct.

21 Q Okay. I may call you "Mister" or
22 "Ingraham." I'll try to keep it straight here. If I
23 do, pardon me.

24 A I won't hold it against you.

25 Q The purpose of your testimony, at least in

1 part, I take it, is to criticize the use of Thress's
2 elasticity estimates on the ground that they involve a
3 wide confidence interval. Is that correct?

4 A I wouldn't necessarily say wide, but there
5 is a confidence interval around those elasticity
6 estimates, and that confidence interval contains a
7 significant range of both elastic and inelastic values
8 for ECR mail.

9 Q Okay. I would like to start with page 5 of
10 your testimony, down at the very bottom on line 17,
11 and you say there, and I'll quote, "Loosely speaking,
12 values within that confidence interval are all
13 statistically equivalent to the regression coefficient
14 in question." What do you mean by "loosely speaking"?

15 A Well, maybe I could rephrase that and say,
16 formally speaking, what that means is that one cannot
17 reject a hypothesis that any particular value within
18 that confidence interval is equal to the point
19 estimate of 1.0789.

20 Q But is that the same as your statement that
21 the values within the confidence interval are all
22 statistically equivalent?

23 A Yes. Loosely speaking, that is correct.

24 Q Okay. Loosely speaking. Let's turn, then,
25 to page 7, and, specifically, at the top of the page

1 there. You show a Figure 1, which has a curve. Do
2 you see that?

3 A Yes.

4 Q This represents, I take it, the 95-percent
5 confidence interval that you were talking about for
6 the price elasticity estimate.

7 A Yes.

8 Q What kind of a curve is this?

9 A That would be distributed according to the T
10 distribution.

11 Q Is it a probability curve?

12 A It is a probability density function.

13 Q Now, you said earlier that all of the values
14 within the confidence interval were statistically
15 equivalent. Let's look at the two extremes on that
16 curve, the value of -1.422, which is highly elastic,
17 and the -.736, which is inelastic. Those are on what
18 appear to be the low portion of the curve. Is that
19 correct?

20 A That's correct.

21 Q Would it be fair to say that those two have
22 an equal probability of being a correct estimate of
23 the elasticity?

24 A One could not reject, at 95-percent
25 confidence, that 1.079 is different from either

1 1.422 -- that would be one helps hypothesis test, and
2 a second one would be that 1.79 is not statistically
3 different from .736.

4 Q I'm not talking now about a null test; I'm
5 talking about the probability that the elasticity will
6 be the same.

7 A Well, that's how one conducts a hypothesis
8 test. It's based on probability distributions.

9 Q Now the probability distribution shows that
10 the highest point of the curve is at the point
11 elasticity of -1.079.

12 A Yes.

13 Q Is it your testimony that the probability of
14 that number being the correct value is no greater than
15 the probability that either of the two extremes on
16 this would be the correct value?

17 A According to if one believes that Witness
18 Thress's estimates are correct, that his model was
19 correct, that his standard errors are correct, his T
20 statistics were correct, and the standard error
21 associated with his T statistic for ECR mail is
22 correct, then one cannot reject statistically the
23 conjecture that 1.79 is different from .736 or 1.422.

24 Q What does this curve represent in terms of
25 probabilities?

1 A In terms of probabilities, to get a notion
2 of probability involved with this curve, what one
3 would need to do is integrate underneath it and get an
4 associated cumulative density function.

5 Q And you would get the largest area
6 underneath that point in the center, wouldn't you?

7 A No. You would get .5.

8 Q Excuse me. So it is your testimony, as a
9 statistician, that there is no greater probability of
10 the correct value of elasticity being the number in
11 the center than the two numbers at the very fringe.

12 A I would defer you to my prior answer. When
13 one conducts these tests -- let me back up.

14 Okay. So there is a parameter estimate that
15 comes from any type of linear regression, and that
16 parameter estimate that you get, if you've done your
17 model correctly, that parameter estimate is your best
18 guess. So it is the mean, but, depending on the width
19 of the confidence interval, there is a whole range of
20 values that you cannot say are statistical different
21 from that mean. Does that help answer your question?

22 Q It gets me a little bit closer. Just to
23 understand the 95-percent confidence interval, that's
24 a way of saying that 95 out of 100 times the value for
25 the price elasticity would fall within this range. Is

1 that a correct way of saying it?

2 A Loosely speaking, yes.

3 Q And, for example, if you did, instead --
4 there are very few things in my life that I have 95-
5 percent confidence in. If, for example, you used a
6 90-percent confidence test instead of a 95 percent,
7 what would that do to the range shown on this table?

8 A If you use a 90-percent confidence interval,
9 then that would shrink the range.

10 Q So, in other words, it would shrink in
11 toward that point in the center. Is that correct?

12 A Yes.

13 Q Are you aware that the Commission has to
14 deal with confidence intervals in a whole a lot of
15 areas involving postal rate-making, for example,
16 postal volume, data collections, especially when you
17 get down to small categories of mail, and presort
18 categories or whatever have confidence intervals
19 around them?

20 A I'm not familiar with every single intricacy
21 of data collection that the Postal Service does, but I
22 do know that in survey data collection there are, of
23 course, standard errors around any type of involved
24 with the collection of data for later estimates.

25 Q That involves not just postal volumes but

1 also postal costs.

2 A I couldn't say. I'm not familiar with --

3 Q You're not familiar with whether or not
4 postal data collections and postal cost analyses all
5 have -- I shouldn't say "all" -- all that I'm aware of
6 have confidence intervals around their estimates.

7 A If the data is generated from a survey
8 process, then it will naturally have standard errors
9 and confidence intervals around that data.

10 Q Are you at all familiar with the marketplace
11 for ECR mail?

12 A Yes, to a certain degree. I don't consider
13 myself an expert on ECR mailings. That's not what my
14 testimony was meant to be.

15 Q Let me ask you this. In a Commission
16 determination assessing relative price elasticity,
17 aside from estimates such as that Thress has or the
18 information you've provided here, do you also believe
19 that it may be important for the Commission to
20 consider evidence about the marketplace in assessing
21 relative price elasticity?

22 A Pardon me? Could you repeat that, please?

23 Q Do you think it would be important for the
24 Commission to consider marketplace evidence in
25 determining the relative price sensitivity of

1 different categories and classes of mail?

2 A Can you give me some examples of marketplace
3 evidence?

4 Q Well, for example, availability of private
5 delivery; degree of competition, for example, between
6 mailers and ECR and newspapers, who help pay your
7 bill.

8 A Well I can say that in Witness Thress's
9 estimates, I'm unaware of cross-price elasticity of
10 substitution involved in the ECR model, so I don't
11 think that that information is actually considered in
12 the econometrics, if that helps answer your question.

13 Q Do you believe there is an intense degree of
14 competition between newspapers and mailers for
15 advertising?

16 A The market for advertising is quite
17 competitive.

18 Q Are you aware of the existence of private
19 delivery for at least segments of ECR mail?

20 A I'm aware that it does exist, although I
21 don't know the extent to which it does.

22 MR. McLAUGHLIN: I have no further
23 questions.

24 CHAIRMAN OMAS: Mr. Todd.

25 CROSS-EXAMINATION

1 BY MR. TODD:

2 Q Good afternoon, Dr. Ingraham. I'm David
3 Todd representing the Mail Order Association of
4 America.

5 I'm going to pose a hypothetical, which I'm
6 sure is most unrealistic, but suppose that life had
7 gone badly for you financially, and you had decided
8 the only way to make it up is to place a very large
9 wager on a set of three numbers. I'm referring your
10 attention to page 7 of your testimony. You had to
11 choose between each of the three numbers shown in your
12 bell curve. Which of the numbers would you place your
13 wager on?

14 A I would probably place it on neither of the
15 three numbers simply because I have -- well, let me
16 rephrase that. That depends on the information on
17 which I am making the guess and what information you
18 allow me to consider.

19 Q Your information is this is all you have.
20 You don't have any choice but these three numbers, and
21 you're placing a large wager upon which your financial
22 future will depend. Which of these numbers would you
23 pick?

24 A Okay. If all I know is that this is a
25 correct T distribution, and all I know is that there

1 was some sort of coin flip that occurred, then I would
2 say none of the above because this is a continuous
3 distribution, and the probability that any one of
4 these numbers occurs is exactly equal to zero.

5 Q However, we've gotten beyond that. My
6 hypothetical is you've decided to place the bet. You
7 have no more information than you have here. You can
8 choose one, but only one, of those three numbers, and
9 your financial future is dependent upon your being
10 correct. Which of the numbers would you choose?

11 A Like I said, the probability that any one of
12 those numbers were to occur is zero, so it doesn't
13 matter because I would definitely lose, no matter
14 which I picked.

15 Q All right. So the number in the middle
16 means nothing. Is that your testimony?

17 A No. I think I know what you're trying to
18 get at here, so --

19 Q It's not very obscure, is it?

20 A No. So allow me to just give a little
21 background into this. This is a confidence interval.
22 If one buys Witness Thress's model and believes that
23 it is correct, believes it was correctly formulated,
24 believes that the data was correctly collected, then
25 this is the confidence interval that surrounds the

1 elasticity estimate of ECR.

2 As I said previously, given that, and if you
3 buy Witness Thress's model, then your best guess as to
4 the elasticity is 1.079. However, there is a
5 confidence interval surrounding this elasticity
6 estimate, and there is a whole range of values, both
7 price elastic and price inelastic, which one cannot
8 differentiate statistically from 1.079.

9 Q I don't think that I shall pursue this
10 further, for fear that we're a long way from the
11 blackjack table.

12 Let me, then, go on to your testimony at
13 page 2 in which, at the very bottom of the page,
14 you're quoting a short excerpt from Witness Prescott's
15 testimony in which he notes that the own price
16 elasticity of ECR has changed from -0.598 in R97 to -
17 1.080 in R2006. Do you see that?

18 A That's correct. I see that.

19 Q And then, again, going back to your chart on
20 page 7 of your testimony, isn't it clear that, even at
21 the lower end of your confidence interval, which
22 should be on the right-hand side, the relative price
23 elasticity for standard mail ECR has increased from
24 the R97 proceeding to the R2006 proceeding.

25 A As a matter of just specific values, then

1 that value lies, as I've drawn Figure 1, to the right-
2 hand side of the confidence interval. Now, I would
3 say that that is not a valid statistical test to see
4 whether or not the own price elasticity of demand for
5 ECR has become more price elastic since that estimate
6 in the '97 rate case, for a couple of reasons.

7 First, as I explained in footnote 10, there
8 is a very specific statistical test, or econometric
9 test, called the "Chow test," which allows one to
10 determine things, such as changes in elasticity over
11 time or across products, and one would want to
12 perform a test such as that to determine if there was,
13 indeed, a statistical change in the own price
14 elasticity of demand for ECR since the '97 rate case,
15 and that does not involve a comparison of the .59
16 number to the confidence interval presented in Figure
17 1 of my testimony.

18 Second, were Witness Thress to go back and
19 estimate the own price elasticity of demand for ECR,
20 given new data and given a new model, which, I
21 believe, he has revised since the '97 rate case, he
22 may not find that the elasticity of demand for the
23 period surrounding 1997 is equal to .59, so that
24 number may have changed.

25 So there are two very significant reasons

1 why that isn't a valid comparison, just on its face.

2 Q We do recognize, I gather, that this
3 Commission, of necessity, must make an estimate of the
4 volumes that will result at the rates recommended, I
5 assume. Is that correct?

6 A Yes. That's correct.

7 Q Again, in making those judgments by the
8 Commission, would you recommend that they use what I
9 think you -- correct me if I'm using the wrong term --
10 the most probable estimate of elasticity or relative
11 elasticity, as the case might be, or one at either end
12 of those extremes.

13 A For volume estimation, for volume
14 prediction, which is, in large part, what Witness
15 Thress's model was meant to do, for ECR the best guess
16 is what Witness Thress did, and that's because no one
17 else has presented a specific estimate for the
18 elasticity of demand for ECR. There is the reference
19 that Witness Clifton made to it being price inelastic,
20 but he didn't give a specific number, and he didn't
21 give a specific model. So the only thing that anyone
22 in this rate case is what was done by Witness Thress.

23 So the best guess for volume for ECR is what
24 Witness Thress presented for his volume prediction.
25 Now, the purpose of my testimony was to look at that

1 elasticity and see if the information given in Witness
2 Thress's testimony was sufficient to support the rate
3 changes advocated by Witnesses Mitchell and Prescott,
4 and my opinion, for the reasons I stated in my
5 testimony, as an econometrician, is it is not.

6 Q What is your recollection of Mr. Prescott's
7 rate recommendations?

8 A I can't recall any specific rate
9 recommendation that he made offhand. He advocated a
10 decrease in ECR rates and didn't say how he was going
11 to offset those.

12 MR. TODD: All right. Thank you.

13 Mr. Chairman, I have no further questions.

14 CHAIRMAN OMAS: Thank you, Mr. Todd.

15 Mr. Olson?

16 CROSS-EXAMINATION

17 BY MR. OLSON:

18 Q Dr. Ingraham, Bill Olson for Valpak. I
19 would like to start where Mr. McLaughlin was asking
20 you questions about the curve on page 7, and, as I
21 understood it, he asked you, in different ways, about
22 the probability of the actual elasticity being at a
23 point, 1.079 or 1.422 or 0.736, and you said that the
24 probability would be zero. Correct?

25 A Of achieving any single one point, yes.

1 Q Right. Let me change the question to ask,
2 rather than about a point, ask about a band. So I'm
3 going to ask you to answer the same question with
4 respect to each of these estimates plus or minus .01
5 so that it's not a point anymore, but it's, rather, a
6 small band. Is the probability of 1.079,
7 plus or minus .01, greater than the probability of
8 1.422 plus or minus .01?

9 A Just given the way the curve is drawn here
10 or other information?

11 Q Let's start with the way he presents this
12 curve.

13 A Just given the way the curve is drawn, the
14 probability around an interval that, on equal sides,
15 supports any one number in that figure is largest
16 around the mean or the median or the mode, which is
17 1.079.

18 Q And now I think you wanted to add some other
19 factor to the --

20 A Sure. What I would say is that, given all
21 of the information that we have in this rate case,
22 there is also additional evidence that the elasticity
23 of demand may be on the inelastic sides. An economist
24 would look at this and say, "Okay. What does this
25 curve mean?" It's basically centered at one, which is

1 the tipping point for elastic or inelastic. It's the
2 tipping point where, if you increase price, revenues
3 either increase or decrease as a result from a
4 percentage increase in price.

5 So where exactly are we? We really don't
6 know. There is only one other piece of information we
7 have to by in this rate case, by an econometrician,
8 and that was Witness Clifton, who, in an interrogatory
9 response, said that his own preliminary estimates -- I
10 shouldn't say "preliminary" -- I don't know if he said
11 that in his response, but his own estimates found that
12 the own price elasticity of ECR was on the inelastic
13 side.

14 Q So you like Witness Clifton's estimate more
15 than Witness Thress's estimate.

16 A No, I didn't say that. I don't necessarily
17 like it, but to go back, if I had to choose one side
18 or the other, since this is positioned right at one,
19 and there is one other econometrician in this case who
20 is saying inelastic, that gives additional support to
21 the inelastic side.

22 Q So the mere fact that any econometrician
23 took that position tips the balance for you.

24 A If you believe, in reading Witness Clifton's
25 estimates for first-class mail and for standard

1 regular, his estimates are reasonably respectable, so
2 I would have to give that some weight.

3 Q Okay. Let's get to what Witness Mitchell
4 testified to in this case. You summarize your
5 criticism on page 3, lines 6 through 10, I guess,
6 approximately, and I just want to get you to help me
7 understand this sentence. You deal with both Mitchell
8 and Prescott. If we could, let's just delete Prescott
9 for purposes of this question and just focus on
10 Mitchell. Okay?

11 I have identified two analytical
12 shortcomings in Witness Mitchell's testimony. First,
13 Witness Mitchell incorrectly concludes that either
14 revenues from ECR mail would necessarily decrease
15 where the cost coverage of that mail increased, or
16 that the elasticity of demand for ECR mail has risen
17 over time. Is that your position, he took one of
18 those two positions but not both?

19 A Witness Mitchell took the first position,
20 and Witness Prescott took the second.

21 Q So that's how to read that sentence.

22 A Yes.

23 Q I see. Mitchell is the first. He
24 incorrectly concluded that revenues from ECR mail
25 would necessarily decrease where the cost coverage of

1 that mail increased. That's your criticism of
2 Mitchell in a nutshell. Correct?

3 A That's correct.

4 Q Okay. Let me ask you this. When you say
5 "the cost coverage increased" there in line 8 -- do
6 you see the reference? --

7 A Yes, lines 8 to 9.

8 Q You say revenue would decline if coverage
9 increased. Wouldn't it be more accurate to say
10 revenue would decline if the rate increased?

11 A Well, if the rate is holding cost constant,
12 then yes, were you to increase the rate, your cost
13 coverage would increase.

14 Q You really mean rate.

15 A Yes.

16 Q As the Postal Service is fond of saying,
17 mailers pay rates, not coverages.

18 A Sure, sure.

19 Q Now, if it were accepted that the elasticity
20 of ECR is, in fact, greater than one in absolute
21 value, are you saying that Mitchell incorrectly
22 concluded that a rate increase would cause revenue to
23 decline?

24 A No. What I'm saying is that when he looks
25 at Witness Thress's testimony, all he pulls from that

1 testimony is 1.079, and he says, Based on this
2 information, the price elasticity of demand for ECR is
3 elastic. An increase in rates for ECR would cause a
4 decrease in revenues from ECR.

5 The point of my testimony was that, well,
6 that's not necessarily correct. There is a confidence
7 interval around this thing, and, as a matter of fact,
8 there is a whole range of inelastic values that are
9 statistically equivalent to Thress's estimate of 1.79.

10 Furthermore, if one conducts these specific
11 tests that one would want to conduct, given Witness
12 Thress's estimates, to see if one could say, based on
13 his estimate of 1.079, whether or not that is price
14 elastic, one rejects that hypothesis.

15 Q You're not saying, though, that Mitchell did
16 not use Thress's best point estimate.

17 A No. I'm saying that he pulled a value from
18 Thress's testimony. He correctly pulled the
19 regression parameter from Thress's testimony. What he
20 did not do is acknowledge that there is a confidence
21 interval around that regression parameter and that
22 that confidence interval is wide enough to include a
23 whole host of inelastic values. So his statement was
24 far to strong, given the statistical evidence in this
25 case.

1 Q Is your criticism with Thress's estimate, or
2 is it with Mitchell's use of that point estimate, or
3 both?

4 A Mitchell's use of that point estimate to
5 support his rates.

6 Q You have no problem with Thress's testimony.

7 A Well, I couldn't necessarily say that, but
8 within the scope of this testimony that I've
9 submitted, this is not rebutting Thress in any way.

10 Q Let me ask you to get to your understanding
11 of the way in which the rates are developed for
12 various products. In fact, what Witness Thress does
13 is develop equations that contain a number of
14 variables that affect demand, and the Postal Service
15 uses those equations to develop its before rates
16 volume forecast. Would that be correct?

17 A Yes.

18 Q Okay. But when it comes to projecting after
19 rates volume, it's only the elasticities that
20 determine change in demand, is that correct?

21 A Thress's model is rather complicated, and I
22 couldn't necessarily say that that's the case.

23 Q Okay. You don't know.

24 A I'd have to go back and look at his volume
25 forecasting model again because he has a number of

1 different components of that model, and I believe that
2 if he were to change things other than elasticity, you
3 would get different volume projections, although I
4 couldn't, just sitting here, without having gone
5 through his model for a few hours, I couldn't say for
6 certain whether that's the case.

7 Q Okay. To your knowledge, when the Postal
8 Service uses Thress's estimated elasticities to
9 project after rates demand, do you know whether they
10 use his point estimates, or do they make some
11 adjustment to those estimates because of uncertainty
12 and confidence intervals that are associated with
13 those estimates?

14 A No. As I said before, they use his point
15 estimates, and when one runs any type of linear
16 regression or nonlinear regression, one gets from it
17 point estimates. For almost all standard regression
18 models, that is the mean point estimate, which is what
19 Thress used, and that's your best guess, but around
20 that, there is a confidence interval.

21 Q Are you saying, though, that when you have
22 statistical uncertainty of your estimate, that you
23 should make some type of adjustment to the estimated
24 elasticity?

25 A No. I'm not saying that. If your goal is

1 prediction, volume prediction, which is essentially
2 what Thress does, then one would use a method like one
3 that he used, which was, I believe, the minimization
4 of means-squared error, and that would involve doing,
5 loosely speaking, just the procedures that Thress
6 followed, assuming that his model was correctly
7 specified.

8 Q Are you saying that because there is
9 uncertainty about Thress's point estimate, that no one
10 can simply know whether the volumes and revenues will
11 change by the amounts projected?

12 A Absolutely. Even though, if you believe
13 that Thress's model is correct, is correctly
14 specified, that there aren't any problems on that end,
15 then your best guess of volume is the volume
16 calculated by Witness Thress. Around that volume
17 prediction, just as with the elasticity, there is a
18 confidence interval, and it's my understanding, having
19 read Thress, that the purpose of what he did was to
20 try to minimize -- I believe it was the specific
21 confidence interval around the volume prediction.

22 Q Let's take a look at page 9 of your
23 testimony. You have a section heading that says,
24 "Elasticity of Demand Does Not by Itself Determine the
25 Value of a Good or Service." Correct?

1 A That's correct.

2 Q And then, on line 12 of that page, you have
3 a statement: "By characterizing value of services
4 being driven only by elasticity, Mitchell and Prescott
5 consider only the value of the last piece of mail sent
6 and disregard the value derived from the majority of
7 mail." Correct?

8 A Yes. That's correct.

9 Q Can you cite to me a place in Witness
10 Mitchell's testimony where he says that value of
11 service is driven by elasticity?

12 A Well, specifically, what I was referring to
13 is the example that Witness Mitchell provides on or
14 about pages 48 to 53 of his testimony, and he walks
15 the reader through an example, given elasticity of
16 1.1, what happens at the margin to consumer surplus,
17 which is one estimate of value of service, given a
18 specific rate increase.

19 So I take that to mean, because he was only
20 looking at the marginal user, and his entire example
21 is driven by an elasticity assumption of 1.1, that
22 that's exactly what he is talking about, that the
23 value of interest is the value to the marginal user,
24 and that's determined by elasticity of demand for ECR.

25 Q Well, I guess what I find awkward is the

1 phrase, "the value of service is driven by
2 elasticity." Do you think it's more accurate to say
3 that Mitchell said that elasticity is an indicator or
4 a measure of the value that is available to draw on
5 when contemplating price increases?

6 A At the margin. Given his example, what
7 determines his value calculus is the elasticity of
8 demand.

9 Q Okay. Let's look at your footnote 12 there.
10 You say, "Measurement of total value is typically
11 performed using consumer surplus, compensating
12 variation, or equivalent variation." Correct?

13 A That's correct.

14 Q Can you point to a place in Mr. Mitchell's
15 testimony where he says that he performed a
16 measurement of total value?

17 A No, I can't. I don't believe he did.

18 Q Is this footnote a criticism of Witness
19 Mitchell's testimony? I'm trying to understand your
20 focus on total value.

21 A Well, the point that I was making here was
22 that when considering the value of the service, one
23 doesn't just consider value of service to the marginal
24 user when one is interested in conducting a framework
25 for the taxation of commodities. One isn't just

1 interested in the margin. One is also interested in
2 the entire demand curve. When you're directed to
3 consider the value of the mail, that, to me, does not
4 necessarily mean the value at the margin. It may be
5 the value to all users, and there are users other than
6 just the marginal user.

7 Q Let's start with these terms that you use.
8 Could you help me understand what you mean by
9 "consumer surplus"?

10 A "Consumer surplus" is the area under the
11 typically constructed demand curve that we know, the
12 ordinary demand curve.

13 Q What's "compensating variation"?

14 A "Compensating variation" is a different
15 measure of consumer welfare. It's calculated using a
16 different type of demand curve. It's called the
17 "Hicksian compensating demand curve," and that's,
18 loosely speaking, that's how much money I would have
19 to compensate you for an offsetting price change that
20 may occur.

21 Q I'm sorry. How much?

22 A It's what I would have to give you. Suppose
23 I were to raise your rates. That's how much money I
24 would have to give you, just as a fixed sum, to offset
25 that rate increase, to leave you well off, equally

1 well off.

2 Q I'm going to hope I don't have to understand
3 that for the purpose of the rest of these questions.

4 Let me ask you what "equivalent variation"
5 means.

6 A "Equivalent variation" is very similar.
7 It's what I would have to take away from you to leave
8 you equally well off in light of a rate change.

9 Q Let me ask you, did you, for first-class
10 mail or for ECR, for example, in your testimony, make
11 any attempt to estimate consumer surplus using any of
12 these technologies?

13 A Not in my testimony, I didn't.

14 Q Have you seen any other testimony filed in
15 the case where there is such an estimate of consumer
16 surplus?

17 A Not that I can recall, no.

18 Q For ECR or first-class mail, are you aware
19 of estimates that are based on consumer surplus,
20 estimates of total value, which are based on these
21 techniques?

22 A Am I aware of? Not sitting here today. I
23 don't believe that I've seen any. To do one, one
24 would need to assume a functional form for the entire
25 demand curve, and I haven't seen that in this rate

1 case.

2 Q If someone were to fashion the complete
3 demand curve and measure total value, would that be a
4 pioneering effort in the field?

5 A I couldn't say.

6 Q Well, you haven't seen it before. Correct?

7 A I fully admit that I haven't seen everything
8 there is to see regarding the mail system.

9 Q Let me ask you this. Are you saying that
10 you need to measure the total level of consumer
11 surplus in order to set postal rates?

12 A The point of this is that, going forward,
13 something very interesting is happening, and that's
14 what the Postal Service has used for a long time to
15 fund institutional costs is declining in volume, and
16 along with that, there will be decline in total value.
17 At the same time, the volume of first-class mail will
18 eventually be exceeded by standard commercial, and so
19 eventually it will also be the case that the value of
20 standard commercial mail will exceed the value, the
21 total value, of first-class mail.

22 That is a very interesting, structural
23 change that will affect the Postal Service, and were
24 they to fund institutional costs, with one subclass or
25 the other at the margin, I would be more interested in

1 funding it with the class of mail that was increasing
2 in value rather than the one that was decreasing in
3 value.

4 Q If you were to develop this type of measure
5 of total value of first-class mail and ECR, what would
6 you do with it in the rate-setting process?

7 A One would compare it to the value of other
8 subclasses or other types of mail and see what's
9 happened to it over time. In essence, it's a
10 consideration of both the elasticity and the volume,
11 what's happened to the volume of the mail over time.

12 Q Okay. Let's look at your testimony again,
13 page 9, line 7. You talk about elasticity of demand
14 not by itself determining the value of mail, and I
15 have a cross-examination exhibit I would like to show
16 you and see if this will help our discussion.

17 By way of introduction here, now that we
18 have this in front of us, just to make sure we're all
19 on the same page, do you see the Demand Curves A and B
20 on this chart?

21 A I believe so. I assume you mean that they
22 intersect at a quantity not labeled and then continue
23 along the same line through the end of the horizontal
24 axis.

25 Q Right. We've got prices, P1 and P2, plotted

1 on the vertical axis and quantity on the horizontal
2 axis, and we have a couple of demand curves. Let me
3 just say, this could be for any subclass of mail --
4 first class, standard, whatever. Could you keep that
5 in mind or accept that assumption?

6 A Sure.

7 Q Okay. And that the demand curve consists of
8 the solid-line portion that is on the right side, and
9 then it completes, in two possible ways, either the
10 dotted line toward B or in the dashed line up toward
11 A. Do you see that?

12 A Yes.

13 Q Okay. Then the last thing is that there is
14 a shaded area on here which represents the value above
15 the line where price equals P_1 and below where price
16 equals P_2 . Can you accept that?

17 A Yes.

18 Q Okay. And using the term, "consumer
19 surplus," that we've discussed, would you agree the
20 shaded area is the loss in consumer surplus when the
21 price is increased from P_1 to P_2 ?

22 A Yes.

23 Q Now, do you understand that where the demand
24 curve intersects the price, at P_1 , for example, the
25 demand curve has an elasticity, not that we know what

1 it is, but it has one, and only one, elasticity.

2 Correct?

3 A That's correct, own price elasticity.

4 Q Okay. So here is my first question. Do you
5 agree that between the price line, P1, and the demand
6 curve, A, the area is greater than between price line,
7 P1, and Demand Curve B, the total area is greater?

8 A Yes, without marking off the points, sure.

9 Q Okay. And Curves A and B both have the same
10 elasticity at the point where P1 crosses the demand
11 curve. Correct?

12 A If they are both along the same line, then,
13 at that price, they would, but just at the margin,
14 however, just at that price.

15 Q Okay. Do you agree that when we increase
16 price from P1, we draw on the value immediately above
17 the P1 price line, and if we went all the way to P2,
18 we would reduce consumer surplus by an area equal to
19 the shaded area?

20 A Can you say that again?

21 Q Sure. As we move up the price from P1 to
22 P2, that we draw on the value that's in that shaded
23 area and that we reduce consumer surplus by an amount
24 equal to the shaded area.

25 A In increasing price from P1 to P2, you will

1 lose the area under that demand curve, which is the
2 shaded area.

3 Q And that would be the consumer's surplus
4 we've drawn upon. Correct?

5 A Yes.

6 Q Okay. Do you agree that if we're interested
7 in economic efficiency, as modeled by the Ramsey
8 formulas, we're interested in the amount of volume and
9 consumer surplus that is lost as the price is
10 increased above P_1 ?

11 A That depends. Ramsey is far more
12 complicated than simply demand. There are cost
13 elements to it that are simply not on this graph.

14 Q Well, you would agree that if the demand
15 curve were vertical or completely inelastic, that you
16 could increase the price with no loss in volume.
17 Correct?

18 A Sure.

19 Q The opposite with horizontal. If it were
20 horizontal at a price equal to P_1 , you could lose all
21 of the volume if we increase the price above P_1 .
22 Correct?

23 A Yes, conceivably.

24 Q Okay. If we're interested only in the
25 volume loss, when we increase price above P_1 , do you

1 agree that it's irrelevant whether we're dealing with
2 Demand Curve A or B?

3 A Given the way that you've drawn this one
4 hypothetical, since you've got two curves that are
5 overlapping, then it doesn't matter. You would get
6 the same economic effect in that price range.

7 Q So increasing the price from P1 to P2
8 results in the same reduction in volume or consumer
9 surplus, irrespective of what the demand curve looks
10 like above P2. Correct?

11 A Given the way that you've drawn this.

12 Q Okay. But the area above P2 is part of what
13 you call "total value" that you say Mitchell should
14 have looked at. Correct?

15 A Yes.

16 Q If the elasticity at the margin tells us
17 about the volume losses we increase the price above
18 P1, do you agree that whether we are on Curve A or
19 Curve B or any other shaped curve as the price gets
20 very high, it's irrelevant to the amount of volume in
21 consumer surplus that is lost in response to modest
22 price increases, such as from P1 to P2?

23 A I'm sorry. Can you say that again?

24 Q Sure. If the elasticity at the margin tells
25 us about the volume loss that we're going to increase

1 as we move from P1 to P2, okay, do you agree that,
2 regardless of whether we're on Curve A or Curve B,
3 that it's irrelevant to the amount of volume in
4 consumer surplus that we lose when we go from P1 to
5 P2?

6 A Well, as I would defer you to my prior
7 response, they are within that price range which you
8 have drawn is just overlapping demand curves, so the
9 same economic effects would reasonably hold within
10 that limited price range.

11 Q On page 9 of your testimony, lines 7 and 8,
12 you say, "There are many reasons why elasticity of
13 demand does not, by itself, determine the value of the
14 mail subclass." Correct?

15 MR. BAKER: I think the counsel read in a
16 word that wasn't there.

17 MR. OLSON: Oh, I'm sorry. It's entirely
18 possible at this time.

19 BY MR. OLSON:

20 Q There are other reasons why elasticity
21 demand does not, by itself, determine the value of the
22 mail subclass. Did I get it that time? Okay. Do you
23 see that?

24 A I believe so, yes.

25 Q In view of our discussion about this graph,

1 at least for this graph, don't you agree that it's
2 irrelevant that the elasticity does not determine the
3 total value of the subclass?

4 A No. I disagree. Given what you've drawn,
5 you've drawn two figures that have different total
6 values, so I fail to see the criticism.

7 Q Well, if we said that, irrespective of
8 whether you're on Curve A or Curve B, if you make a
9 modest price increase, such as from P1 to P2, you lose
10 the consumer surplus in the shaded area, but it
11 doesn't matter whether you're on Curve A or Curve B as
12 to how much total value there is potentially above
13 that. It really doesn't matter what the demand curve
14 above the point of the price increase looks like, does
15 it?

16 A That depends. You're just looking at prices
17 around a very specific interval, and that's not what I
18 was discussing. That's what Witness Mitchell
19 discussed in his testimony.

20 Q For this purpose, for the purpose of moving
21 from P1 to P2, have that price increase, wouldn't you
22 agree that the amount of the total area under Demand
23 Curve A or Demand Curve B is irrelevant? It's the
24 area in the trapezoid there between that's shaded
25 that's irrelevant for the purpose of this --

1 A Of course, that's the case. Take away --
2 just don't even consider these lines, A or B. Just
3 eliminate them entirely because you particularly are
4 only questioning a marginal price change. Then, of
5 course, it's the case. You don't need to talk about A
6 or B. All you're interested in is in that one shaded
7 area, but that's not what I was discussing here.

8 Q Your focus is on the total value, which is
9 the total area under line A for Demand Curve A, or
10 under Demand Curve B. Correct?

11 A Not just for one subclass, however.

12 Q Well, we're dealing with one subclass in
13 this graph.

14 A But not in my interpretation of what Witness
15 Mitchell had written.

16 MR. OLSON: Okay. I thank you for that, and
17 I have no more questions.

18 CHAIRMAN OMAS: Thank you, Mr. Olson.

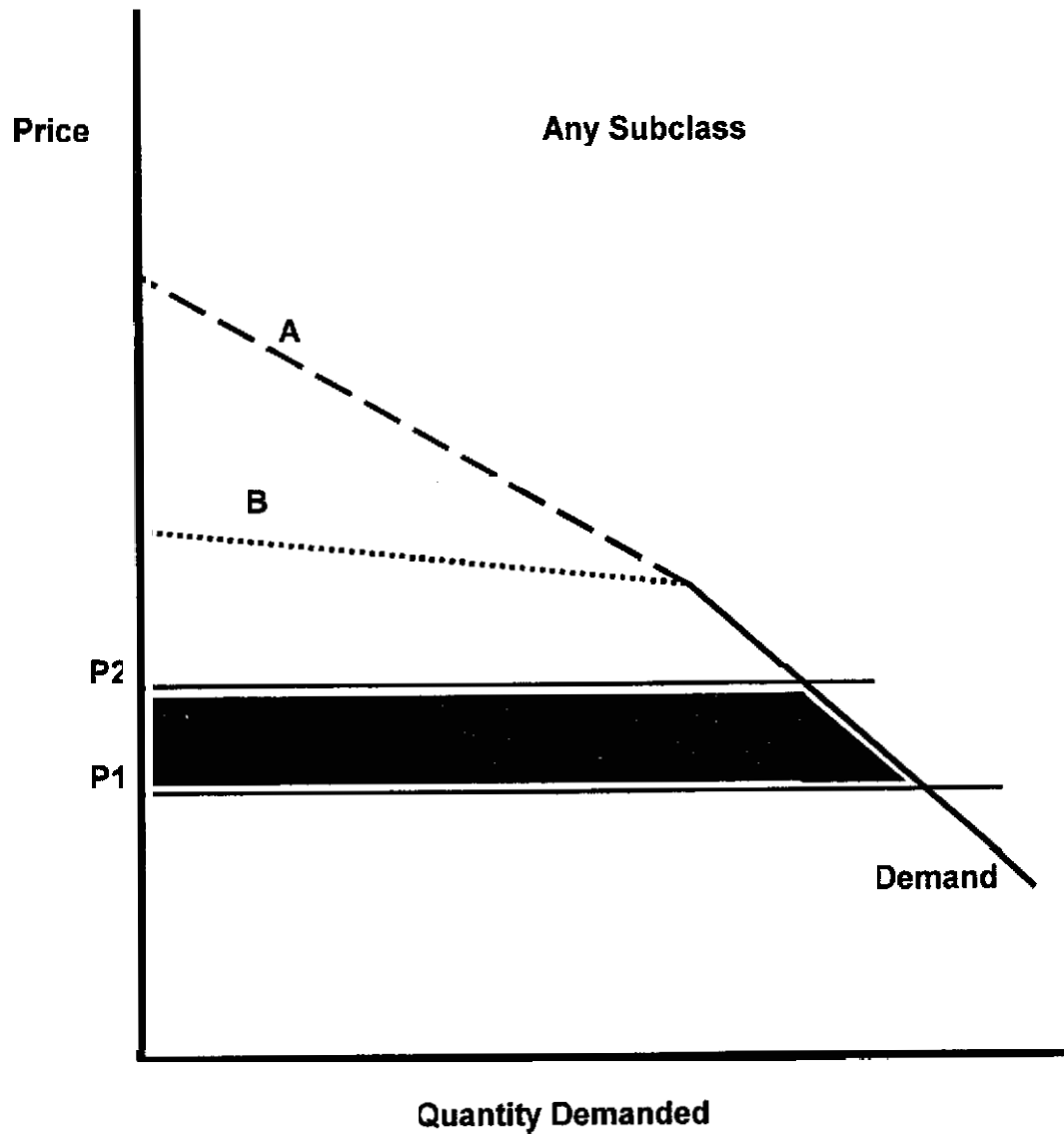
19 MR. OLSON: Mr. Chairman, I would like to
20 ask that this be marked as VP-Ingraham-XE-1 and
21 transcribed in the record not as evidence but just to
22 help understanding.

23 CHAIRMAN OMAS: Without objection, so
24 ordered.

25 //

1 (The document referred to was
2 marked for identification as
3 Exhibit No. VP-Ingraham-XE-1
4 and was received in
5 evidence.)
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1 CHAIRMAN OMAS: Is there any other party who
2 wishes to cross-examine the witness? Mr. Koetting.

3 MR. KOETTING: Thank you, Mr. Chairman.

4 CROSS-EXAMINATION

5 BY MR. KOETTING:

6 Q Dr. Ingraham, I just want to follow up a
7 little bit, very briefly, on your reference to the
8 information that might be relevant in this proceeding
9 provided by Dr. Clifton with respect to the own price
10 elasticity of ECR. Specifically, I think the
11 statement in your testimony is on page 8, lines 9
12 through 10.

13 A Yes.

14 Q I believe, in your exchange with counsel
15 earlier, I'm not exactly sure who it was anymore, but
16 you were suggesting that this was an additional item
17 of information above and beyond the econometric
18 estimate provided by Witness Thress. Correct?

19 A That's correct. From my testimony, it was,
20 yes.

21 Q Do you recall whether or not the way you
22 have paraphrased Dr. Clifton's interrogatory response
23 is relatively true to what he says, in the sense that
24 you state that "he believed that ECR was price
25 inelastic but more price sensitive to price than

1 standard regular"? Is that close to what he said?

2 A Given his econometrics, my reading of it was
3 that he had done his own estimates of ECR, and his
4 estimates had come back price inelastic for ECR, for
5 the own price elasticity of demand.

6 Q Was there anything in his statement beyond
7 what you've paraphrased here, which looks to be almost
8 a direct quote, that he says, I believe the elasticity
9 for ECR, while clearly greater than Standard A
10 regular, is also inelastic. Is there anything in that
11 statement that refers to any econometric modeling on
12 his part?

13 A I would presume that, given that he is an
14 econometrician and given that his testimony was
15 related to econometrics, then I believe that it's
16 reasonable to infer that, as an econometrician, to
17 support that claim, he would have done his own
18 estimates rather than just plucking a number out of
19 the air.

20 Q But he didn't present any econometrics.

21 A He didn't present any econometrics in his
22 interrogatory response. He didn't give a specific
23 number. He just said that he believed that it was
24 price inelastic, although in excess of standard
25 regular. It's more to the sensitive side of standard

1 regular.

2 Q But you have nothing to confirm your
3 assumption that he actually had some econometrics
4 behind this other than --

5 A I haven't talked to Dr. Clifton, but, given
6 that he is an econometrician and given that he wrote
7 some testimony that seemed to me to show that he knows
8 what he is doing, I think it's reasonable to presume
9 that he did some number crunching rather than just
10 pulling a number out of the air.

11 Q Well, let's at least assume hypothetically
12 that he didn't do any number crunching. Would you
13 then concede that if he did not, that his belief on
14 the elasticity is entitled to no more weight than any
15 of the other economists who have testified in this
16 proceeding regarding the state of the market with
17 respect to ECR mail but perhaps, likewise, didn't do
18 any econometrics?

19 A I couldn't say. I haven't seen what
20 everyone else has testified on regarding the
21 elasticity of demand for ECR other than this one
22 statement by Witness Clifton. The only estimates that
23 I've seen are those presented by Witness Thress.

24 MR. KOETTING: That's all I have, Mr.
25 Chairman. Thank you, Professor Ingraham.

1 CHAIRMAN OMAS: Thank you, Mr. Koetting.

2 Is there anyone else who wishes to cross-
3 examine this witness? Commissioner Goldway.

4 CROSS-EXAMINATION

5 BY COMMISSIONER GOLDWAY:

6 Q Mr. Ingraham, are you familiar with Witness
7 Sidak's testimony?

8 A Yes, I am.

9 Q It's my understanding, in looking at your
10 summary statement and his testimony, that you were
11 both looking at some empirical evidence separate from
12 econometric formulas, that empirical evidence being
13 that while prices have risen in the last several years
14 for both first-class and standard mail, standard mail
15 volumes have grown, and first-class mail has declined
16 so that, in spite of traditional econometric modeling
17 showing first-class mail having a lower elasticity
18 than standard, empirical evidence seems to indicate
19 the opposite. It seems to me, anyway, you're
20 referring to that same body of evidence in your
21 summary.

22 Are you able to make any similar kind of
23 evaluation on the differences between ECR and regular
24 within the standard category to determine whether one
25 of those is more elastic than the other based on

1 empirical evidence?

2 A In this rate case, the only estimates that
3 we have to go on are those presented by Witness
4 Thress. Actually, that's not quite correct. Witness
5 Clifton also presented an econometric model of
6 standard regular, and he found that elasticity of
7 demand to be more to the price-inelastic side.

8 Q On both?

9 A Just on standard regular, but given ECR, the
10 only thing we have to go on is that presented by
11 Witness Thress for a specific econometric model, and
12 he found that that elasticity was around unity, that
13 is, right around one, and the other two estimates
14 presented by Witness Clifton and Witness Thress both
15 find that the elasticity of demand for standard
16 regular is price inelastic.

17 Q So we don't have an actual comparison
18 between standard regular and ECR in terms of their
19 relative elasticity.

20 A Not a statistical test that was performed to
21 say whether or not standard regular is more price
22 inelastic than ECR. We do know that the mean values
23 of those elasticity estimates differ, ECR being more
24 price elastic than standard regular, but there has not
25 been a specific statistical test that I'm aware of in

1 this rate proceeding that has shown that there is a
2 statistically significant difference in those two
3 elasticities.

4 Q But overall, if we look at the empirical
5 evidence of other witnesses other than Thress, they
6 are less elastic than had been previously thought,
7 given the relative volumes of these --- given that the
8 volume of standard mail has grown in spite of price
9 increases.

10 A Despite price increases, yes. That does not
11 specifically inform elasticity, but what it does tell
12 you is that all of these types of mail have
13 experienced rate increases, and different things have
14 happened to each of them. First-class mail has
15 fallen. Standard regular has increased. ECR has
16 stayed relatively constant. That, by itself, does not
17 inform elasticity, but it does, when combined with
18 elasticity, give you information regarding the total
19 value of the mail and what value out there is left to
20 draw from it institutional cost contributions.

21 COMMISSIONER GOLDWAY: Great. Thank you.

22 CHAIRMAN OMAS: Mr. Baker, would you like
23 some time with your witness?

24 MR. BAKER: Two minutes.

25 CHAIRMAN OMAS: Very good.

1 (Off the record.)

2 CHAIRMAN OMAS: Mr. Baker?

3 MR. BAKER: We have no redirect, Mr.

4 Chairman.

5 CHAIRMAN OMAS: Thank you, Mr. Baker.

6 Mr. Ingraham, that completes your testimony
7 here today. We appreciate your contribution to our
8 record, and you are now excused. Thank you.

9 THE WITNESS: Thank you, sir.

10 (Witness excused.)

11 CHAIRMAN OMAS: Mr. Olson, would you please
12 identify your witness?

13 MR. OLSON: Mr. Chairman, William Olson for
14 Valpak calling to the stand Robert W. Mitchell.

15 CHAIRMAN OMAS: Mr. Mitchell, you have been
16 sworn in this case previously, so, Mr. Olson, you may
17 proceed.

18 Whereupon,

19 ROBERT W. MITCHELL

20 having been previously sworn, was recalled
21 as a witness and was examined and testified further as
22 follows:

23 DIRECT EXAMINATION

24 BY MR. OLSON:

25 Q Mr. Mitchell, I would like to provide you

Heritage Reporting Corporation
(202) 628-4888

1 with two copies of "The Rebuttal Testimony of Robert
2 W. Mitchell Concerning Rate-making for Letters and
3 Flats and Standard Mail," designated as VP-RT-1, and
4 ask you if this was prepared by you, and if you adopt
5 it as your testimony in this docket.

6 A Yes. This is my testimony.

7 Q Do you have any changes?

8 A No changes.

9 MR. OLSON: Mr. Chairman, we move the
10 admission of this rebuttal testimony into the record
11 at this time.

12 CHAIRMAN OMAS: Is there any objection?

13 (No response.)

14 CHAIRMAN OMAS: Hearing none, I will direct
15 counsel to provide the reporter with two copies of the
16 corrected testimony of Robert W. Mitchell. That
17 testimony is received into evidence and is to be
18 transcribed into the record.

19 (The document referred to was
20 previously marked for
21 identification as Exhibit No.
22 VP-RT-1 and was received in
23 evidence.)

24 //

25 //

Postal Rate Commission
Submitted 11/20/2006 3:40 pm
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Accepted 11/20/2006

VP-RT-1

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2006)

Docket No. R2006-1

Rebuttal Testimony of

ROBERT W. MITCHELL

Concerning

RATEMAKING FOR LETTERS AND FLATS
IN STANDARD MAIL

On Behalf of

VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.

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1 **AUTOBIOGRAPHICAL SKETCH**

2 For a copy of my autobiographical sketch, see VP-T-1 in this docket.

3 **I. PURPOSE OF TESTIMONY**

4 The purpose of this testimony is to rebut the prescription of Pitney Bowes
5 Inc. witness John C. Panzar on the issue of how rates for letters and flats should
6 relate to their respective costs when the letters and flats reside in the same
7 subclass of mail.

8 **II. INTRODUCTION**

9 Witness Panzar argues in his direct testimony that efficient component
10 pricing ("ECP") should apply to *all* rate differences within a subclass, including
11 those based on shape. See PB-T-1, p. 45, I. 1 through p. 47, I. 9. Then,
12 because the alternative to ECP for shape-based rate differences (as well as
13 other rate differences) would be to apply more broadly the policies of the Postal
14 Reorganization Act of 1970 ("the Act"), including the recognition of value of
15 service, he proceeds to provide reasons why guidance relating to ECP should be

1 preferred to emphasis on economic efficiency.^{1, 2, 3} PB-T-1, p. 47, l. 10 through
2 p. 50, l. 7.

3 If the categories of letters and flats were in different subclasses, witness
4 Panzar would apparently agree that elasticities and value of service should be
5 given explicit recognition. See response to VP/PB-T1-6(e), Tr. 26/9186-90. In
6 fact, when asked on oral cross-examination about a situation where the
7 elasticities of two categories (of parcels) in the same subclass were different,
8 witness Panzar responded: "Looking at this example, my reaction would be, why
9 are these two services in the same subclass?" Tr. 26/9259, ll. 16-17.
10 Nevertheless, he went on to explain that in such a case, "the argument ... shifts
11 more to the use of price-elasticity-based differences [than ECP-based
12 differences]." Tr. 26/9259, ll. 23-24.

13 To the contrary, Newspaper Association of America ("NAA") witness J.
14 Gregory Sidak argues in his testimony that "ECP is not an appropriate concept to
15 use in calculating shape-based rates in the same manner that would be used to
16 determine worksharing discounts." NAA-T-1, p. 11, ll. 20-22, and see *generally*

¹ For Standard Mail letters and flats, I see no reason for rate differences based on the non-cost factors of section 3622(b) of the Act, except for the possibility of a difference in value of service, which leads immediately to questions of how value of service should be recognized and therefore to matters modeled in the Ramsey formulas.

² My response to ADVO/VP-T1-10, Tr. 25/8824-35, explains why witness Panzar's reasons for preferring ECP to Ramsey do not apply well to the question of rate differences between letters and flats. That explanation is not repeated here.

³ In general, witness Panzar recognizes two kinds of efficiency: (i) *productive* efficiency, which is the focus of ECP, and (ii) *economic* efficiency, which is the focus of the Ramsey formulas. See PB-T1-1, p. 47, ll. 11-16.

1 p. 11, l. 9 through p. 12, l. 3. He explains in his response to an interrogatory:
2 "Unless shape were considered a form of worksharing, which I am not aware to
3 be the case, ECP does not apply to shape-based rates." Response to
4 ADVO/NAA-T1-4(b), Tr. 26/9132.

5 Witness Panzar's own reasoning may not support the application of ECP
6 to rate differences based on shape. Drawing on his reasoning, my purpose is to
7 explain why his prescription of ECP should *not* be applied to shape-based rate
8 differences. The following section discusses this issue.

9 III. RATESETTING FOR LETTERS AND FLATS

10 If letters and flats in Standard Mail had different own-price elasticities and
11 different costs, and if the cross-price elasticities were zero and there were no
12 policy constraints, they would be obvious candidates for separate subclasses.
13 To make them separate subclasses would be consistent with Commission
14 practice, which I describe at some length in my direct testimony. See VP-T-1, p.
15 20, l. 2 - p. 24, l. 3. *So designated, their separate cost coverages would be*
16 *selected in accordance with the policies of the Act. In doing this, a range of*
17 *factors would be considered, including their value of service. If other factors did*
18 *not provide a basis for differences, the role of value of service could be*
19 *substantial, consistent with notions of economic efficiency.*

20 To illustrate, suppose letters are more elastic than flats and have lower
21 costs. Specifically, suppose letters cost 10 cents each and flats cost 20 cents

1 each,⁴ and assume notions of economic efficiency suggest coverages of 150
2 percent for letters and 200 percent for flats.⁵ These coverages lead to a rate for
3 letters of 15 cents and for flats of 40 cents. The rate difference is 25 cents (40
4 cents minus 15 cents) and the cost difference is 10 cents (20 cents minus 10
5 cents). Thus, the rate difference represents 250 percent of the cost difference,
6 which can be viewed reasonably as a passthrough.

7 If a decision were made to house these letters and flats in a joint
8 subclass, the same recognition could be given to economic efficiency.
9 Specifically, rates for letters and flats within the subclass could be developed
10 with a passthrough of 250 percent, yielding the same 15-cent and 40-cent rates.
11 This result would be consistent with witness Panzar's suggestion, noted above,
12 that in such a situation, "the argument ... shifts more to the use of price-elasticity-
13 based differences [than ECP-based differences]." Tr. 26-9259, ll. 23-24.

14 Making the simplifying assumption of equal volumes of letters and flats,
15 the cost coverage of the joint subclass discussed above is 183.3 percent. If the
16 average elasticity of the joint subclass is known and category-specific elasticities
17 for letters and flats are not available, it might be considered reasonable to
18 develop the rates as though the elasticities of letters and flats were the same.

⁴ These figures and the elasticity relationships were selected to keep the illustration simple, not because they have a particular relation to the actual situation in any Standard Mail subclass.

⁵ Under the condition that the cross-price elasticities are zero, these coverages would be consistent with the ordinary inverse elasticity rule. If the own-price elasticities for letters and flats were the same, each coverage would be 183.3 percent.

1 Under these conditions, notions of economic efficiency would suggest rates with
2 a letter-flat passthrough of 183.3 percent, equal to the subclass coverage. One
3 way of looking at this is that creating separate subclasses is hardly necessary
4 when the elasticities are presumed to be the same, because economically-
5 efficient rates can be developed easily by applying a passthrough equal to the
6 subclass coverage.

7 Under the conditions of a letter-flat passthrough of 183.3 percent, the rate
8 difference between letters and flats would be 18.33 cents (1.833 times the cost
9 difference of 10 cents). Though lower than the 25-cent difference begun with
10 above, this is still a substantial rate difference, at least relative to the ECP rate
11 difference of 10 cents. As a qualitative matter, witness Panzar's position under
12 these conditions would seem to be that: (i) as long as the elasticities are
13 different, separate subclasses are warranted, which in the above example would
14 lead to a passthrough above 183.3 percent and a rate difference larger than
15 18.33 cents, but (ii) as soon as the elasticities become essentially the same, the
16 appropriate thing to do would be to set the passthrough at 100 percent, to yield a
17 rate difference of 10 cents.

18 On both theoretical and practical grounds, witness Panzar's position
19 strikes me as unacceptable. I do not see that it is reasonable for decreases in
20 the elasticity difference to cause decreases in the passthrough — from 250
21 percent down toward 183.3 percent in the example, accompanied by a smooth
22 decline in the rate difference from 25 cents to 18.3 cents — and then for an
23 additional decrease in the elasticity difference, this time to zero, to cause a giant

1 decrease in the rate difference, *i.e.*, a decrease to 10 cents. This approach
2 presents a discontinuity in the way efficiency is recognized. The alternative,
3 which I endorse, is a default passthrough equal to the subclass coverage,
4 particularly when the elasticity differences are unknown (or believed to be small).
5 As I explain in my response to ADVO/VP-T1-10 (Tr. 25/8824-35, cited above),
6 the reasons witness Panzar gives for applying ECP do not apply well to letters
7 and flats,⁶ and the unreasonableness of applying them regardless becomes ever
8 more apparent when they cause a discontinuity of this kind.

9 One further step needs to be taken, and that is to introduce cross-price
10 elasticities. The solution described above, a passthrough equal to the subclass
11 cost coverage when letters and flats are in the same subclass and the own-price
12 elasticities are treated as though they were the same (maybe for lack of
13 evidence to the contrary), applies strictly when the cross-price elasticities are
14 zero. But since it would be unusual for them to be zero, what if they have some
15 value, but not a high value? Let's begin by assuming that the cross-price
16 elasticities rise to a level just above zero. That is, they are not zero, but they are
17 low.

18 Witness Panzar was asked about this situation of products having equal
19 elasticities and non-zero cross elasticities. He explained that he has not
20 performed the required analysis and does not "know of a paper in the literature
21 where this case is explicitly discussed." Response to VP/PB-T1-6(f), Tr.

⁶ My response to ADVO/VP-T1-10 also explains why the reasons witness Panzar gives for not emphasizing economic efficiency are not convincing.

1 26/9189. See also Tr. 26/9292, ll. 2-10. I have not performed the analysis
2 either,⁷ but I think it is possible to say something about where the solution lies.

3 I believe the relationships involved are smooth and continuous, and that,
4 as the cross elasticities begin to grow, the solution of economic efficiency moves
5 slowly *from* the solution of a passthrough equal to the subclass coverage. Can
6 we say in which direction it moves? I find it difficult to believe that an increase in
7 the cross elasticities, which suggests an increase in the propensity of buyers to
8 move between the products due to price differences, would suggest that the
9 prices of the two products should be further apart. Moreover, if this were the
10 outcome, policy considerations might suggest rejection of that kind of price
11 adjustment. Therefore, although I cannot provide a mathematical proof, I believe
12 the reasonable and likely effect of the presence of some cross elasticity would
13 be to move the passthrough downward from the level of the coverage of the
14 subclass (183.3 percent in the above example) — but not down to a level of 100
15 percent, which is the ECP solution. Unless the cross elasticity becomes
16 unusually high, I believe the passthrough would remain well above the 100-
17 percent level.

18 It is on this basis, as described herein, that I believe the default
19 passthrough of the letter-flat cost difference should be equal to the subclass cost

⁷ For one particular case, however, involving presort and non-presort First-Class Mail, I did find that the passthrough of economic efficiency is above 100 percent and below the coverage of the subclass. See Robert W. Mitchell, "Postal Worksharing: Welfare, Technical Efficiency, and Pareto Optimality," in *Emerging Competition In Postal and Delivery Services*, edited by Michael A. Crew and Paul R. Kleindorfer, Boston, Kluwer Academic Publishers, 1999, pp. 311-334.

1 coverage. I have not argued that there are no reasons for a passthrough below
2 the subclass cost coverage — indeed, I propose such passthroughs in my direct
3 testimony and provide reasons supporting them. See VP-T-1, p. 159, l. 5 and p.
4 178, l. 12. In the example above, the presence of cross elasticities might be a
5 reason to lower the passthrough *from* 183.3 percent, but it is not a reason to
6 adopt a passthrough of 100 percent.

1 CHAIRMAN OMAS: This now brings us to oral cross-
2 examination. Two requests have been made or filed for
3 oral cross. Mr. McLaughlin, you may begin.

4 MR. McLAUGHLIN: Thank you, Mr. Chairman.
5 (The document referred to was
6 marked for identification as
7 Exhibit No. Advo-XE-1.)

8 CROSS-EXAMINATION

9 BY MR. McLAUGHLIN:

10 Q Mr. Mitchell, I take it that the thrust of
11 your testimony in rebuttal to Witness Panzar relates
12 to your view of the optimum way to set the ECR letter-
13 flat rate differential by, in your terms, marking up
14 the letter-flat cost differential by the subclass cost
15 coverage. Is that correct?

16 A Basically, yes.

17 Q And in your testimony, starting, I guess, at
18 the bottom of page 3 and continuing on, you offer some
19 examples, I take it, that are to demonstrate that the
20 results you advocate within ECR mimic or can also be
21 obtained if letters and flats had been separate
22 subclasses. Is that correct?

23 A I think the example that starts on the
24 bottom of page 3 is to illustrate the nature of the
25 effect that I am talking about. I don't indicate that

1 it has a direct relation quantitatively to the actual
2 proposal that I made.

3 Q No, but I took it, though, that you were
4 saying that the result that you advocate for setting
5 the letter-flat rate differential is the same result
6 that you would get applying the same principles if
7 letters and flats were separate subclasses. Is that
8 correct?

9 A Basically, that's true, assuming they have
10 the same elasticities.

11 Q Right. I understand that. Let's just start
12 on the bottom of page 3, and I think it carries over
13 to the top of page 4, where you set up an example. In
14 your example, you've assumed that letters cost 10
15 cents, flats cost 20 cents, and you've assumed that
16 letters are more price sensitive than flats. Is that
17 correct?

18 A That's an assumption.

19 Q Right. And you've assumed that, based on
20 those price-elasticity differences, the appropriate
21 cost coverage for letters would be 150 percent and for
22 flats would be 200 percent. Is that correct?

23 A That's the example.

24 Q Okay. And from that, you apply those cost
25 coverages to the costs that you're assuming. All of

1 these, I understand, are just assumptions. Is that
2 correct?

3 A It's a hypothetical set up to discuss an
4 effect. I progress through the testimony with it in
5 order to illustrate the thinking process.

6 Q I understand. I understand. And so you say
7 that after you applied these cost coverages, you come
8 up with a revenue or a rate for letters of 15 cents
9 and for flats of 40 cents. Is that correct?

10 A Yes.

11 Q And that rate differential, 25 cents, is
12 equal to a 250-percent pass-through of the cost
13 difference. Is that right?

14 A Yes.

15 Q I want to show you a cross-examination
16 exhibit here, which, I believe, just establishes what
17 we've just talked about. It basically is another way
18 of showing the very same thing you show in that
19 testimony there.

20 A I'm sorry. I'm just asking myself. It's
21 250 or 150, and if I put an extra --

22 Q A 100-percent pass-through of the cost
23 difference would be 10 cents, wouldn't it?

24 A Okay. Go ahead.

25 (Pause.)

1 BY MR. McLAUGHLIN:

2 Q Does this cross-examination exhibit, which I
3 have marked Advo-XE-1 reflect what's in your testimony
4 and what we just described?

5 A Yes. I'm down to line 3: 1.5 times 10, 15
6 and 40. Okay. Okay.

7 Q Now, looking at the exhibit I just handed
8 you, this is based on the assumption that letters are
9 more price sensitive than flats. Correct?

10 A That's true. I have a footnote explaining,
11 of course. I set it up that way intentionally in
12 order to make it convenient to discuss the effect.

13 Q Right. It's just hypothetical. Let's just
14 assume, for purposes of my hypothetical, that we
15 flipped those price sensitivities, and we assume that
16 flats were more price sensitive than letters, in
17 essence, that the 200-percent cost coverage would be
18 applied to letters, and the 150-percent cost coverage
19 would be applied to flats. Okay?

20 A Okay.

21 Q Now, I think the math is pretty simple
22 there. If that were the case, the letter rate would
23 go from 10 cents to 20 cents. Is that correct?

24 A It would go from 15 cents to 20 cents.

25 Q The letter rate.

1 A Yes.

2 Q Would it go from 10 cents to 20 cents?

3 A Well, right now, it was 15 at 150, and you
4 wanted to make it 200-percent coverage, so wouldn't
5 that make it 20 instead of 15?

6 Q Yes, yes. Excuse me. Let me back up a
7 second here. You have a letter cost per piece of 10
8 cents. Correct?

9 A Yes.

10 Q You apply a 200-percent cost coverage. That
11 gives you a revenue per piece of 20 cents. Is that
12 correct?

13 A Yes.

14 Q And for flats, you have assumed a 20 cents
15 cost per piece. If you apply 150-percent cost
16 coverage, you get 30 cents per piece. Is that
17 correct?

18 A Yes.

19 Q In that case, what is the cost difference
20 between letters and flats?

21 A It's still 10 cents.

22 Q And what is the rate difference?

23 A Ten cents.

24 Q And what is the pass-through at that point?

25 A One hundred percent.

1 Q Is this a way of indicating that the price-
2 sensitivity assumptions can have a major impact on
3 what the appropriate pass-through should be?

4 A If price sensitivity effects are recognized
5 within subclasses, yes, they can.

6 Q You, for purposes of your first example,
7 have done that but flipped the elasticities the other
8 way.

9 A Well, I set up this example so that I could
10 progress into a situation where we put these in the
11 same subclass and didn't know anything about the
12 elasticity and proceeded to set rates for that
13 subclass. So you don't want to lose sight of the
14 progression through the testimony of the example.

15 MR. McLAUGHLIN: I am going there.

16 Mr. Chairman, I would like to mark for
17 identification Advo-XE-2, which basically just lays
18 out what Mr. Mitchell and I have just gone over, where
19 the only change from Exhibit 1 is that we have
20 switched the price elasticity assumptions between
21 letters and flats.

22 CHAIRMAN OMAS: Without objection, so
23 ordered.

24 (The document referred to was
25 previously marked for

1 identification as Exhibits
2 No. Advo-XE-2 and was
3 received in evidence.)

4 THE WITNESS: This summarizes what we just
5 went through. Is that right?

6 BY MR. McLAUGHLIN:

7 Q Yes, it does summarize what we just went
8 through. Does it look like it summarizes it
9 correctly?

10 A I think so.

11 Q Okay. Now, then let's continue on with this
12 chart, Advo-XE-2. In your hypothetical, you have
13 assumed that the cost of flats is double the cost of
14 letters. Is that correct?

15 A Yes.

16 Q Twenty cents versus 10 cents? Is that the
17 actual relationship for ECR?

18 A Of course, not. I said that I set this up
19 in order to make the discussion, through my testimony,
20 of the effect easy to follow. It will work for any
21 set of numbers and any set of elasticities, but it's a
22 lot easier to follow with the ones that I chose, so I
23 wanted to choose those for that reason.

24 Q Well, let's see how it works with different
25 cost numbers. Let's, instead of having a 2-to-1 ratio

1 between the cost for flats and the cost for letters,
2 in other words, your assumption that flats cost 100
3 percent more than letters, let's assume that flats
4 cost 40 percent more than letters. Okay?

5 A Okay.

6 Q So that the cost for a letter is 10 cents,
7 and the cost for a flat is 14 cents.

8 A Okay.

9 Q Does that actually sound more in line with
10 what ECR letters versus flats costs actually are?

11 A It might even be closer than that. I don't
12 have any reason to --

13 Q So you don't have any fundamental problem
14 with substituting 14 cents for 20 cents, then.

15 A The effect exists regardless of what figures
16 you start with. It just becomes messier to follow.

17 MR. McLAUGHLIN: Okay. Well, let me now
18 distribute to you a copy of Advo-XE-3, which plugs in
19 a 14-cent cost in place of your 20-cent cost for
20 flats.

21 (Pause.)

22 (The document referred to was
23 marked for identification as
24 Exhibit No. Advo-XE-3.)

25 BY MR. McLAUGHLIN:

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1 Q So the only change we've done from Advo-XE-2
2 is just to change the ECR flat cost. Is that right?

3 A Yes.

4 Q The letters figure doesn't change, but on
5 the flats side, that 14-cent cost times 150-percent
6 cost coverage would get you a 21-cent average revenue
7 per piece. Is that correct?

8 A Yes.

9 Q And the cost difference would be four cents.

10 A Yes.

11 Q And the rate difference would be one cent.

12 A Yes.

13 Q And, in that case, the approach that you
14 have used here would show a pass-through of 25
15 percent.

16 A Yes.

17 Q So the pass-through that would be achieved
18 from the examples that you give are sensitive not only
19 to price-elasticity assumptions but to the level of
20 the cost difference. Is that correct?

21 A I think so.

22 Q And it can produce pass-throughs of less
23 than 100 percent, can't it, far less than the subclass
24 cost coverage?

25 A Sure.

1 Q Now, let's next assume -- you were talking
2 about how -- I believe, in your testimony, in fact,
3 you get to the point where you assume an equal cost
4 coverage. Is that correct?

5 A Yes.

6 Q And you mentioned just previously that
7 that's where you eventually wanted to go, and that's
8 where I wanted to go, too. But let's stick with the
9 cost assumptions that I've got here in Advo-XE-3, and
10 let's figure out what the -- I believe, when you did
11 your calculation of an equalized cost coverage, you
12 assumed equal volumes of letters and flats to develop
13 the cost coverage that would be the equivalent for the
14 subclass. Is that correct?

15 A Again, that makes it very easy.

16 Q Right. Well, I'm going to do the same thing
17 here. So, for example, if letters and flats had equal
18 volumes, you agree that the average cost per piece
19 would be in between 10 and 14 or 12 cents per piece
20 for first class.

21 A Twelve cents.

22 Q And the average revenue per piece would be
23 20.5 cents.

24 A Yes.

25 Q That would produce a cost coverage of 170.8

1 percent.

2 A You had a cost of 12 cents, a revenue of
3 20.5 --

4 Q Right.

5 A -- and what coverage did you get?

6 Q 170.8 percent.

7 A 170.8. Okay.

8 Q Do you get that number yourself?

9 A I don't have a calculator, but let's assume
10 I would.

11 MR. McLAUGHLIN: Okay. So Let me now hand
12 out to you Advo-XE-4, which will apply -- I've rounded
13 it to 170 percent instead of 170.8, which shows, under
14 your approach, the pass-throughs at an equalized cost
15 coverage.

16 (The document referred to was
17 marked for identification as
18 Exhibit No. Advo-XE-4.)

19 BY MR. McLAUGHLIN:

20 Q So under this approach, where we assume an
21 equal cost coverage for letters and flats, you would
22 end up with a cost difference of four cents and a rate
23 difference of 6.8 cents, and, under your approach,
24 that would be a pass-through of 170 percent, equal to
25 the subclass cost coverage. Is that correct?

1 A Yes.

2 Q The 6.8-cent rate difference; is that the
3 appropriate letter-flat rate differential?

4 A In this example, yes.

5 Q Have we forgotten anything here? What about
6 the pound rate? Does this assume a zero pound rate?

7 A I haven't said anywhere that this applies
8 directly to setting rates in ECR. That was the
9 subject of a separate piece of testimony. The purpose
10 of this development is to get through to a point
11 where, if all of a sudden you go to ECP instead of
12 recognizing economic efficiency within a subclass,
13 when you think the elasticities are equal, if you
14 suddenly go to ECP instead of recognizing economic
15 efficiency, you get a discontinuity and a very, very
16 large, sudden difference in the rate difference.

17 And I was pointing out that that was
18 something that I found very difficult to accept, and
19 this was set up in order to get to that conclusion
20 and, therefore, to say that I feel very uneasy about
21 abandoning economic efficiency within a subclass and
22 adopting ECR and that I think Panzar's own reasoning
23 leads you, in some cases, to a different place.

24 Q You didn't answer my question. Does that
25 assume a zero pound rate?

1 A It does not make any assumptions about pound
2 rate; it only discusses the piece rates in the
3 example.

4 Q And it suggests that if the subclass letter-
5 flat rate cost differential is -- the letter-flat rate
6 differential that you get out of this is 6.8 cents.

7 A Yes.

8 Q If a pound rate is added onto that 6.8 cents
9 letter-flat rate differential, wouldn't that increase
10 the average revenue per piece above the 23.8 cents
11 that are shown in this example?

12 A It probably would.

13 Q And if that were the case, wouldn't that
14 increase the cost coverage for flats above 170
15 percent?

16 A Doing nothing else but extending, assuming
17 this is a minimum per piece rate structure, which I
18 haven't even assumed -- I've just assumed a very
19 simple example -- you're trying to extend this into
20 rate setting for ECR, which is a complex process where
21 we have to recognize the rate structure and everything
22 that's going on there, but --

23 Q Mr. Mitchell.

24 A -- I do agree that if you took these as
25 simple piece rates, and then you extended a pound rate

1 upward, that it would increase the average revenue per
2 piece for your flats.

3 Q And that would increase the cost coverage
4 for flats, too.

5 A Yes, it would.

6 Q In fact, that would increase the cost
7 coverage for the entire subclass if these were
8 together. If the target cost coverage that's
9 appropriate for flats is 170 percent, which we had
10 agreed was the target cost coverage, if you add a
11 pound rate onto the 6.8-cent piece rate, doesn't that
12 necessarily create excessive revenues that will exceed
13 that 170-percent cost coverage?

14 A We're stretching here to something. I
15 proposed 100-percent pass-through in my testimony. I
16 think that if we did something different from the
17 pound rate, I might adjust the pass-through at the
18 basic level up a little higher, which might leave the
19 letters in the same place.

20 You're extending this into something well
21 beyond what it was set up for.

22 Q I believe it goes to the core of your
23 concept, Mr. Mitchell. If, in fact, you added a pound
24 rate onto this, what adjustment would you have to make
25 to keep the cost coverage at 170 percent?

1 A You would probably have to lower the piece
2 rate.

3 Q You would have to lower the piece rate,
4 wouldn't you, so that you would have a less-than-170-
5 percent pass-through of the piece rate if you have any
6 pound rate. Isn't that correct?

7 A In the way it's set up and the way you've
8 been discussing it, yes.

9 Q So, in other words, the piece rate and the
10 pound rate are inextricably linked in your own
11 example. An upward increase in one requires a
12 downward increase in another in order to achieve the
13 same cost coverage. Is that correct?

14 MR. OLSON: Mr. Chairman, I would object to
15 the phrase describing the pound rate in your own
16 example since Witness Mitchell has said there was no
17 pound rate assumed in his example.

18 MR. McLAUGHLIN: Well, that's one of the
19 problems, I think, with his example.

20 THE WITNESS: Well, Witness Panzar doesn't
21 discuss a pound rate, and I am filing rebuttal which
22 is a theoretical piece dealing with his testimony.

23 BY MR. McLAUGHLIN:

24 Q Mr. Mitchell, don't you agree that adding on
25 any pound rate to your example here shows that you

1 necessarily have to make a corresponding reduction in
2 the piece rate in order to achieve the target cost
3 coverage?

4 A Well, the way you set it up, yes, but I
5 don't need to change any for letters that I've seen so
6 far. It seems like letters could remain unaffected.

7 Q And the larger the pound rate, the lower the
8 piece rate has to be, right, in order to maintain 170
9 percent cost coverage?

10 A In the way you have set it up and discussed
11 it, I think that's true.

12 Q Okay, I'm missing my cross examination
13 Exhibit 5 here for a second. But let me just ask, the
14 average revenue per piece there in Advo-XE-4, for
15 flats of 23.8 cents, do you have any idea, at the
16 current pound rate, what the pound rate represents of
17 the average revenue per piece for flats?

18 A Not right off.

19 Q The pound rate is pretty large, isn't it?
20 It's over 60 cents a pounds.

21 A It depends what large means. It's a
22 meaningful pound rate.

23 Q Well, it's over 60 cents a pound. Isn't
24 that correct?

25 A Yes, I think it was. Was it 60.1 or

1 something?

2 Q Well, I think you can always double check
3 this later on. But I kind of took a look at several
4 different sources, one of which was the Commission's
5 recommended decision from 2005, Appendix G, page 13,
6 where they show revenue and volume calculations for
7 various categories. I think you can also get it from
8 other sources, as well.

9 Roughly, it looked to me like roughly 20
10 percent of the average revenue per piece, from flats,
11 comes from pound rate. Does that sound "ballparkish"?
12 Would that sound outrageous to you? In other words --

13 A I have essentially calculated those figures
14 in my work papers from my T-1 Advo testimony. So I
15 think you could dig them out. But I would accept your
16 representation.

17 Q Okay, well, let's assume 20 percent, if
18 applied to the 23.8 percent average revenue per piece,
19 you're talking, what, maybe five cents? Let's just
20 use four cents, though, as the average pound rated
21 cost per piece within flats, okay?

22 A You were saying, let's use four tenths.
23 This is somewhere you're going. It's not somewhere
24 I'm going. It's not very close to anything that's
25 contained in my rebuttal testimony.

1 Q Well, we can decide on brief whether or not
2 where I'm going is relevant to your testimony. But
3 let me just pass out to you Advo cross examination
4 Exhibit 5, and I think I've lost some of my copies of
5 it here. The only copies I've found are just two for
6 the moment. I think they're somewhere here, Mr.
7 Chairman.

8 Do you see Advo-XE-5??

9 A Yes.

10 (The document referred to was
11 marked for identification as
12 Exhibit No. Advo-XE-5.)

13 Q Basically, it is the same as Advo-XE-4,
14 except that down at the bottom, I've added four new
15 bits of information. It still shows the 6.8 rate
16 difference for flats versus letters. It still shows
17 the 170 percent pass-through. But here, it assumes
18 that the average pound rate per piece for flats is
19 four cents. Do you see that?

20 A I'm having a little bit of trouble
21 assimilating it, because my example has two pieces in
22 it. Now you appear to have more pieces, because there
23 must be some of them going at the number per piece
24 rate and some of them going at the pound rate, and I
25 don't know how many. So I'm not quite sure how to

1 calculate weighted averages.

2 Q Well, isn't it a fact that the ECR rate
3 structure includes piece-rated and pound-rated flats?

4 A That's true.

5 Q And the average cost difference includes
6 weight-related costs, too, doesn't it?

7 A Yes, it does.

8 Q Okay, do you have a problem with the
9 assumption here that, of that 23.8 cents, it's
10 reasonable to assume that at least four cents is
11 pound-related costs from a pound rate?

12 MR. OLSON: Mr. Chairman, I think I have a
13 problem in assuming it, because we've gotten so far
14 away from Witness Mitchell's original testimony that I
15 guess if he if he can answer it, that's fine. But
16 we've added a pound rate; we've added minimum per
17 piece rates; and then a piece component of a pound
18 rate; and we're so far away from where we began, I'm
19 not sure any of these questions are answerable.

20 MR. MCLAUGHLIN: Mr. Chairman, we are far
21 and away from where Witness Mitchell began. But we
22 are demonstrating what Mr. Mitchell forgot to do in
23 his own analysis of ECR rate design and subclass
24 design. So I think this is entirely appropriate. It
25 goes to the core of his testimony and his conclusions

1 that the appropriate way to price ECR is to do a sub-
2 class mark-up on a cost rate differential.

3 CHAIRMAN OMAS: Mr. Mitchell, if you can
4 answer the question?

5 THE WITNESS: Well, I'm been trying to.
6 These are issues that I discussed at great length in
7 our testimony. I have a number of pages in more than
8 one place about the letter flat differential and about
9 the costs involved and what they represent. So it's a
10 complex thing to handle, and I made a proposal. We're
11 trying to handle some of it very quickly here within a
12 limited example.

13 So I'm trying to cooperate. If you want to
14 say the average pound rate per piece is four cents,
15 net piece rate 19.8, your math is all consistent.

16 BY MR. MCLAUGHLIN:

17 Q And in that case, because you have included
18 pound rate revenues and you, therefore, have to reduce
19 the piece rate to keep the target 170 percent cost
20 coverage. The letter flat pass-through drops down to
21 70 percent. Is that correct?

22 A Well, of course, I suspect, if I follow
23 this, that what would happen here would have a lot to
24 do with relative volumes, and maybe even how many
25 tiers we had of letters and how many tiers we had of

1 flats, density tiers. So I'm not quite sure what the
2 results mean. But it's your example, and in your
3 example, I think your math is correct.

4 MR. MCLAUGHLIN: I have no further
5 questions.

6 Mr. Chairman, I would like to have the five
7 cross examination exhibits transcribed into the
8 record. I don't think that it's necessary to receive
9 them into evidence since we've discussed them orally
10 on the record, and that's obviously in the record.

11 CHAIRMAN OMAS: Without objection, so
12 ordered.

13 (The documents referred to,
14 previously identified as
15 Advo-XE-1 through Advo-XE-5,
16 were received in evidence.)

17 //
18 //
19 //
20 //
21 //
22 //
23 //
24 //
25 //

ADVO-XE-1

| | ECR <u>Letters</u> | ECR <u>Flats</u> |
|------------------------|-----------------------|---------------------|
| Ave. Cost per Piece | 10 | 20 |
| Cost Coverage | 150% | 200% |
| Ave. Revenue per Piece | 15 | 40 |
| Cost Difference | | 10 |
| Rate Difference | | 25 |
| Passthrough | | 250% |

Source: VP-RT-1, p.4

(assumes letters are more price sensitive than flats)

ADVO-XE-2

| | ECR | ECR |
|------------------------|----------------|--------------|
| | <u>Letters</u> | <u>Flats</u> |
| Ave. Cost per Piece | 10 | 20 |
| Cost Coverage | 200% | 150% |
| Ave. Revenue per Piece | 20 | 30 |
| Cost Difference | | 10 |
| Rate Difference | | 10 |
| Passthrough | | 100% |

(assumes flats are more price sensitive than letters)

ADVO-XE-3

| | ECR <u>Letters</u> | ECR <u>Flats</u> |
|------------------------|-----------------------|---------------------|
| Ave. Cost per Piece | 10 | 14 |
| Cost Coverage | 200% | 150% |
| Ave. Revenue per Piece | 20 | 21 |
| Cost Difference | | 4 |
| Rate Difference | | 1 |
| Passthrough | | 25% |

(assumes smaller letter-flat cost difference)

ADVO-XE-4

| | <u>Letters</u> | <u>Flats</u> |
|------------------------|----------------|--------------|
| Ave. Cost per Piece | 10 | 14 |
| Cost Coverage | 170.0% | 170.0% |
| Ave. Revenue per Piece | 17 | 23.8 |
| Cost Difference | | 4 |
| Rate Difference | | 6.8 |
| Passthrough | | 170.0% |

(assumes equal cost coverage)

ADVO-XE-5

| | <u>Letters</u> | <u>Flats</u> |
|-----------------------------------|----------------|--------------|
| Ave. Cost per Piece | 10 | 14 |
| Cost Coverage | 170.0% | 170.0% |
| Ave. Revenue per Piece | 17 | 23.8 |
| Cost Difference | | 4 |
| Rate Difference | | 6.8 |
| Passthrough | | 170.0% |
| Ave. Pound Rate per piece | | 4 |
| Net Piece Rate | | 19.8 |
| Net letter-flat rate differential | | 2.8 |
| Letter-flat passthrough | | 70.00% |

1 CHAIRMAN OMAS: Mr. Todd?

2 MR. TODD: I have no questions, Mr.

3 Chairman.

4 CHAIRMAN OMAS: Is there any other party;

5 Mr. Straus?

6 MR. STRAUS: David Straus for the Association
7 of Alternate Postal Systems -- I'd like to ask a
8 follow-up or two to the round of cross examination.

9 CHAIRMAN OMAS: By all means, proceed.

10 CROSS EXAMINATION

11 BY MR. STRAUS:

12 Q Mr. Mitchell, turning to Advo-XE-4, I'm just
13 trying to find out what your understanding of this is,
14 because I wasn't following the questions and the
15 answers. It shows average revenue per piece from
16 letters of 17 cents and from flats of 23.8 cents,
17 correct?

18 A Yes.

19 Q Is it your understanding that those are the
20 revenues per piece from a piece charge; or, in your
21 example, was it revenues per piece for that piece,
22 whether it be piece charge or a pound charge, or some
23 combination?

24 A I'm not convinced that I have an
25 understanding of that. I set up an example which had

1 two pieces of mail of equal volumes by definition, and
2 I looked at their costs. We've now extended into
3 something that has a pound rate.

4 I think my guess is that if McLaughlin were
5 answering questions here, he would say that 17 cents
6 is the total postage for a letter; and that 23.8 cents
7 is the total postage in the form of a piece rate for a
8 flat that is not over, I would assume, 3.3 ounces.
9 But I don't remember him using the phrase "3.3"
10 anywhere in his discussion; but we can presume it.

11 Q You said in the form, "a piece rate" for the
12 flats. What threw me is that Mr. McLaughlin was
13 asking you about adding pound rates to whatever shows
14 up on this exhibit, as if the 17 cents and the 23.8
15 cents were each a piece rate.

16 A No.

17 Q Is it your understanding that there's a
18 different piece rate for flats and letters today?

19 A I don't claim to understand that entirely.
20 It's his example, and I was trying to agree with his
21 math when I could.

22 Q Okay, let me back up. Would I be correct
23 that the 23.8 cents you're showing, or that Mr.
24 McLaughlin showed here in this exhibit, would
25 represent the postage paid by a flat under this

1 scenario?

2 A I think so, and I think it presumes that
3 it's not a flat that pays a pound rate.

4 MR. STRAUS: Okay, thank you.

5 CHAIRMAN OMAS: Thank you, Mr. Straus.

6 Is there anyone else; Mr. McLaughlin?

7 MR. MCLAUGHLIN: Mr. Chairman, let me
8 collect the missing XE-5 from Mr. Mitchell, who has my
9 only other copy of it, so I can hand it to the
10 reporter.

11 CHAIRMAN OMAS: All right, thank you.

12 MR. TODD: Mr. Chairman, I do have one
13 follow-up.

14 CHAIRMAN OMAS: Mr. Todd?

15 CROSS EXAMINATION

16 BY MR. TODD:

17 Q Mr. Mitchell, I'm assuming that you would
18 agree that when this Commission is looking at the rate
19 design for standard mail, ECR, and for that matter,
20 regular, it must of necessity look at the entirety of
21 the rate structure; the minimum per piece, and what
22 revenues and costs are incurred at the pound level and
23 the piece level, et cetera; that you cannot take
24 individual elements of the rate design and come up
25 with anything that is very useful in terms of this

1 Commission making a decision. Would you agree with
2 that?

3 A Yes, as I did in my T-1 Valpak testimony.

4 MR. TODD: Thank you.

5 CHAIRMAN OMAS: Thank you, Mr. Todd.

6 Is there anyone else?

7 (No response.)

8 CHAIRMAN OMAS: Are there any questions from
9 the bench?

10 (No response.)

11 CHAIRMAN OMAS: There being none, Mr. Olson,
12 would like some time with your witness?

13 MR. OLSON: Two minutes, please?

14 CHAIRMAN OMAS: Yes, sir.

15 (Whereupon, a short recess was taken.)

16 MR. OLSON: We have no redirect.

17 CHAIRMAN OMAS: Mr. Mitchell, that completes
18 your testimony here today. We appreciate your
19 contribution to our work record and your appearance
20 here today, and you are now excused.

21 THE WITNESS: Thank you.

22 CHAIRMAN OMAS: Thank you very much.

23 CHAIRMAN OMAS: I think it's right at 3:00,
24 and we shall take a 10 minute break, our afternoon
25 break, and we'll continue when we return.

1 (Whereupon, a short recess was taken.)

2 CHAIRMAN OMAS: Ms. McKenzie?

3 MS. MCKENZIE: The Postal Service call
4 Abdulkadir Abdirahman to the stand to the stand, Mr.
5 Chairman.

6 CHAIRMAN OMAS: Ms. McKenzie, you may
7 proceed. Mr. Abdirahman is already sworn in, in this
8 case.

9 MS. MCKENZIE: Thank you, Mr. Chairman.
10 Whereupon,

11 ABDULKADIR ABDIRAHMAN
12 having been previously duly sworn, was
13 recalled as a witness and was examined and testified
14 as follows:

15 DIRECT EXAMINATION

16 BY MS. MCKENZIE:

17 Q Mr. Abdirahman, you have before you two
18 copies of a single document entitled, Rebuttal
19 Testimony of Abdulkadir Abdirahman on Behalf of the
20 United States Postal Service, USPS-RT-7. Do you have
21 any changes to that testimony?

22 A Yes.

23 Q Would you please describe those changes?

24 A On page eight, line seven, where it says
25 page 21 should be deleted and should be replaced by,

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1 page 18 to 21; on line eight, where it says, "instead,
2 he derives the percentages, and then," that should be
3 deleted and replaced with, "instead, he." That's the
4 only change that I have.

5 Q So it would read, "Instead, he claims..."

6 A That's correct.

7 Q If you were to testify today, would your
8 testimony be the same?

9 A Yes.

10 MS. MCKENZIE: Mr. Chairman, at this point,
11 the Postal Service moves into evidence the rebuttal
12 testimony of Abdulkadir Abdirahman, on behalf of the
13 United States Postal Service, USPS-RT-7.

14 CHAIRMAN OMAS: Is there any objection?

15 (No response.)

16 CHAIRMAN OMAS: Hearing none, I will direct
17 counsel to provide the reporter with two copies of the
18 corrected testimony of Mr. Abdirahman. That testimony
19 is received into evidence, and is to be transcribed
20 into the record.

21 (The document referred to,
22 previously identified as
23 Exhibit No. USPS-RT-7, was
24 received in evidence.)

25 //

Postal Rate Commission
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USPS-RT-7

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

REBUTTAL TESTIMONY
OF
ABDULKADIR M. ABDIRAHMAN
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE

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1 **AUTOBIOGRAPHICAL SKETCH**
2

3 My name is Abdulkadir M. Abdirahman. I am an Economist in Special
4 Studies at the United States Postal Service. Special Studies is part of Corporate
5 Financial Planning at Headquarters.

6 In this docket, I testified as a direct witness (USPS-T-22) concerning the
7 total mail processing unit costs for First-Class Mail presort letters, First-Class
8 Mail presort cards, and Standard Mail Regular presort letters. In addition, my
9 testimony included the cost study supporting the Qualified Business Reply Mail
10 (QBRM) cost avoidance estimates and the additional cost estimates associated
11 with the various Business Reply Mail (BRM) fees.

I. PURPOSE AND SCOPE OF TESTIMONY

This testimony offers rebuttal evidence concerning several proposals submitted by First-Class Mail intervenors.

First, my testimony contests the Metered Mail Letters (MML) benchmark submitted by the Major Mailers Association (MMA) and Pitney Bowes Inc (PB). The Postal Service believes that the Commission has already and repeatedly rejected MML as the benchmark for presort letter costs, and MMA and PB have added nothing to the current discussion that would merit reconsideration of MML as a benchmark.

Second, my testimony rebuts the use of unreliable delivery unit cost estimates by MMA, PB and the American Postal Workers Union, AFL-CIO (APWU). The Postal Service believes that there are no reliable data which indicate that delivery unit costs differ by presort rate category. Therefore, any cost analyses which rely upon the use of these delivery cost differences are immediately suspect.

Third, my testimony rebuts the cost pool classifications proposed by several of the same intervenors. The Postal Service believes that its cost pool classifications in this docket are consistent with past "Commission-approved" cost pool classifications and accurately reflect the costs that may be modeled to reflect differences in costs among presort levels.

Fourth, my testimony rebuts the MMA and Time Warner, Inc (TW) proposals to expand the scope of the QBRM cost study.

1 Finally, my testimony rebuts the MMA's unfounded criticisms concerning
2 the Remote Bar Code System (RBCS). Postal Service data show that RBCS has
3 consistently improved over time.

1 **II. FIRST-CLASS MAIL LETTER COST METHODOLOGIES AND**
2 **RELATED ISSUES**
3

4 The Postal Service and First-Class Mail intervenors have, in the past,
5 disagreed about aspects of the methods used to measure worksharing related
6 cost savings for purposes of setting presort and automation rates. In the instant
7 proceeding, the Postal Service has presented an alternative methodology that
8 involves "de-linking" the rates for First-Class Mail workshared letters from single-
9 piece letters.

10 Many of the traditional intervenors in the First-Class Mail arena have
11 congratulated the Postal Service for these methodological improvements. MMA
12 witness Bentley called this change "a welcome relief from the considerable
13 controversy generated in recent omnibus rate cases. I applaud the Postal
14 Service for bringing the long and unduly complicated conflict to an end."¹

15 Pitney Bowes (PB) witness Buc stated the following:

16 *The Postal Service has made some improvements to its model in this*
17 *case. Specifically, the Postal Service has improved the model's handling*
18 *of estimated costs and cost avoidances in three ways: (1) combining*
19 *Automation with non-Automation tallies in the cost pools; (2) changing the*
20 *classification of three cost pools from fixed to the proportional category;*
21 *(3) delinking the Presort letters cost avoidance from a single piece*
22 *benchmark.*²
23

24 My testimony (USPS-T-22, pages 5 and 6) in this docket discussed
25 several improvements to the methodology used to estimate First-Class Mail

¹ Docket No. R2006-1, MMA-T-1, page 6.

² Docket No. R2006-1, PB-T-2, page 10.

1 worksharing-related cost avoidances.³ It also presented the rationale behind
2 those improvements.

3 The changes include:

- 4 • The elimination of the Bulk Metered Mail (BMM) benchmark
- 5 • The use of a single CRA-derived mail processing unit cost estimate for
6 presort letters (as opposed to the use of separate, unreliable, CRA-
7 derived estimates for nonautomation presort and automation presort
8 letters)
- 9 • The elimination of the distinction between worksharing-related fixed and
10 nonworksharing-related fixed cost pools (no longer necessary in a de-
11 linking scenario in which the worksharing mail processing unit cost ties
12 directly back to a CRA-derived estimate); and
- 13 • The elimination of unreliable, rate category-specific delivery unit cost
14 estimates.

15
16 **A. Intervenor Comments Concerning the Historic BMM Letters**
17 **Benchmark**

18
19 In this docket, the Postal Service is proposing a change in the approach
20 used to develop the rates for First-Class Mail workshared letters. The Postal
21 Service's delinking proposal is a superior approach for determining the rates for
22 First-Class Mail workshared letters. MMA witness Bentley first salutes the
23 delinking proposal, but then, hedging his bets, rejects the "Commission-
24 approved" BMM letters benchmark in favor of his own Metered Mail Letters

³ Docket No. R2005-1, USPS-LR-K-48.

1 (MML) benchmark. His position that BMM letters do not exist has not been
2 substantiated by any current field observations.⁴ While the new delinking
3 approach does not require the use of a BMM letters benchmark, it is worth noting
4 that the Commission-approved benchmark for First-Class Mail letters has been
5 BMM letters in each of the past three litigated dockets (PRC Op. R2000-1 at
6 para. 5089; PRC Op. R97-1 at para. 5089; and PRC Op. MC95-1 at para. 4302).
7 In Docket No. R2000-1, the Commission categorically stated the following in its
8 Opinion and Recommended Decision.

9 The Commission continues to accept bulk metered mail as the appropriate
10 benchmark for determining the worksharing cost savings for First Class
11 Mail. The Postal Service provides evidence that at least some BMM does
12 exist in the mailstream. The Commission also views a benchmark as a
13 "two-way street". It represents not only that mail most likely to convert to
14 worksharing, but also, to what category current worksharing mail would be
15 most likely to revert if the discounts no longer outweigh the cost of
16 performing the worksharing activities.⁵

17
18 In the face of such conclusions by the Commission, and in the face of repeated
19 observations by postal witnesses confirming the existence of BMM in prior cases,
20 it is surprising that witness Bentley could continue to hold his view. In fact, in
21 September 2006 I personally observed hundreds of trays of BMM at the
22 Southern Maryland processing plant.

23 Unlike witness Bentley, Pitney Bowes Inc witnesses Panzar (PB-T-1) and
24 Buc (PB-T-3) both reject the BMM letter benchmark from a theoretical
25 perspective. Neither Witness Panzar's nor Witness Buc's positions, however,
26 have been substantiated by any current field observations.⁶ In my opinion, the

⁴ Docket No. R2006-1, MMA-T-1, Appendix 1 pages 3, lines 11-13.

⁵ PRC Op. R2000-1, para. 5089.

⁶ Docket No. R2006-1, PB-T-3, page 12, lines 1-7.

1 Commission should adopt the Postal Service's delinking methodology as the
2 superior approach in this proceeding. Even if the Commission does not adopt the
3 delinking methodology, these unsubstantiated views should not warrant
4 departure from Commission findings in past cases supporting BMM benchmark.⁷

5
6 **B. Delivery Unit Cost Estimates By Rate Category**

7
8 In the instant proceeding, the Postal Service revised the way rate category
9 delivery unit cost estimates were produced. After further consideration, it was
10 determined that machinability is the one characteristic of a mail-piece that has a
11 quantifiable impact on delivery unit costs. Machinable mail pieces would be
12 dispatched to delivery units as part of the Delivery Point Sequence (DPS) mail,
13 while the nonmachinable mail pieces would be dispatched with the residual (non-
14 DPS) mail that required manual processing. Separate delivery unit cost
15 estimates are therefore provided for machinable and nonmachinable mail pieces
16 only. Separate delivery unit cost estimates by rate category are no longer
17 provided because there is no conclusive evidence to suggest that the DPS
18 percentages actually vary among the machinable rate categories. Furthermore,
19 because the presort letters that fail to be DPSed are not individually marked to
20 indicate their specific presort level, it would not be possible to conduct a field
21 study to estimate those percentages.

⁷ In Docket Nos. R2001-1 and R2005-1, the Postal Service used Nonautomation Machinable Mixed AADC presort letters as the proxy for the delivery cost for BMM benchmark. In Docket No. R2000-1 the Commission used the average delivery cost of all nonautomation presort letters as the delivery proxy. The Postal Service chose the Nonautomation Machinable Mixed AADC presort letters as the appropriate delivery benchmark because they share similar characteristics to BMM. See USPS-LR-K-48.

1 The DPS percentages that were calculated in the past were a byproduct of
2 the fact that acceptance rates were assigned to each automation operation in the
3 letter cost models. The cost models were based on a premise that mail
4 processed through a larger number of steps had lower DPS percentages than
5 mail processed through fewer steps. In reality, mail pieces that have been
6 successfully processed (i.e., accepted) in an "upstream" automation operation
7 can be successfully processed in a "downstream" operation as well.
8 Furthermore, no studies have been conducted in which the same mail pieces are
9 processed through machines multiple times in order to determine if the total
10 number of pieces that are ultimately rejected increases as the number of
11 automation handlings increases.

12 Moving from upstream to downstream operations, the acceptance rates
13 tend to increase. Part of the reason this occurs is that the upstream operations
14 contain more single-piece mail. If there are problematic single-piece mail pieces
15 upstream, once they are rejected they would be processed manually. This is part
16 of the reason why downstream acceptance rates are higher. Given that the cost
17 models rely on aggregate acceptance rates (single-piece and bulk combined),
18 less finely presorted bulk mail pieces appear to have lower DPS percentages,
19 even though we have no data to indicate that this is actually true. In other words,
20 it is a byproduct of our data limitations.

21 While the letter cost models are adequate for estimating mail processing
22 unit costs by rate category, they are not likely to be an effective tool for
23 estimating DPS percentages by rate category. Hence, the disaggregated DPS

1 percentages by presort category are not meaningful and should not be used to
2 determine cost differences by presort level for letters.

3 In their testimonies, MMA, PB, and APWU all rely on these DPS
4 percentages of highly questionable accuracy. The Postal Service has, on
5 numerous occasions in this docket, testified that the differences in DPS
6 percentages by rate category for machinable letters are spurious.⁸ MMA witness
7 Bentley, on page ¹²⁻²¹ 24 of his Appendix 1, does not rely solely on the cost model
8 derived DPS percentages. Instead he ~~derives the percentages and then~~ claims
9 to reconcile them to the DPS% reported by USPS witness Kelley from the carrier
10 data system. Witness Bentley's delivery costs savings methodology,
11 nevertheless, uses unreliable DPS percentages as the starting point in his
12 analysis, before this reconciliation is performed and therefore, his delivery cost
13 savings calculation is similarly unreliable.

14 PB witness Buc criticizes the Postal Service's reluctance to continue using
15 the meaningless DPS percentage differentiations, saying that it "substantially
16 degrades the integrity of the cost model" by not using these flawed data.⁹ To the
17 contrary, the exclusion of the flawed data has improved the cost model. DPS
18 percentages are not inputs to the mail processing cost models – and never were
19 – and there are no data indicating that DPS percentages actually differ among
20 the presort rate categories. It is ironic that the same parties that have complained
21 in the past that the model produced DPS percentages that were inaccurate are
22 now criticizing the Postal Service for not producing them. Again, this shows that

⁸ Docket No. R2006-1 MMA/USPS-T42-7. Tr.11/2850.

⁹ Docket No. R2006-1, PB-T-2, page 12.

1 their criticism is not based on improving the accuracy of the methodology.
2 Therefore, their use of these flawed data in their cost analyses should be
3 rejected.

4 Despite the repeated objections by the USPS regarding the use of such
5 data, APWU witness Kobe makes the same mistake. She also uses these flawed
6 data as the basis for her cost analyses of worksharing cost avoidances.¹⁰
7 Indeed, witness Kobe's BMM-benchmark based cost model relies heavily on the
8 DPS percentage differences in order to drive the outcome of the model. In my
9 opinion, the inability of the BMM-benchmark to operate in the absence of the
10 meaningless DPS percentage differences reinforces the advantages of the
11 Postal Service's de-linking proposal.¹¹

12

13 C. Cost Pool Classifications

14

15 My testimony, USPS-T-22, at page 6, lines 10-21, explains the rationale
16 for eliminating the distinction between worksharing-related cost pools and
17 nonworksharing-related cost pools: "All analyses of workshare-related activities
18 are constrained within the self-contained CRA set of costs associated with
19 Presort letters." In this docket, the distinction between worksharing-related and
20 nonworksharing-related cost pools is eliminated solely because the use of a
21 single CRA set of costs makes any such distinction moot in the computation of
22 cost avoidances. Nevertheless, the Postal Service's approach to cost pool

¹⁰ Docket No.R2006-1, APWU-LR-1.

¹¹ Office of Consumer Advocate witness Thompson, OCA-T-4 relies on USPS-LR-L-141, which uses DPS percentages for delivery cost savings calculations. Her use of delivery cost savings by rate category should also be rejected.

1 classifications in this docket is consistent with the approaches adopted by the
2 Commission in previous dockets.¹²

3 PB witness Buc proposes cost pool classifications in PB-LR-L-1 that differ
4 from those relied upon by the Postal Service and the Commission in past
5 dockets. Witness Buc classifies the vast majority of cost pools as proportional,
6 even though the tasks represented by many of those cost pools are not included
7 in the mail flow models. He arbitrarily classifies the majority of the cost pools as
8 modeled/proportional without presenting any supporting evidence. Witness Buc
9 acknowledges that he relies on his so called "Thought Experiment" for the cost
10 pool changes. When the Postal Service inquired whether witness Buc had, in
11 fact, attempted to model the costs for the cost pools that he proposes to shift to
12 the "proportional" classifications, witness Buc replied, "I have not modeled them
13 but I have provided multiple reasons why they are proportional".¹³

14 In fact, witness Buc provided no justification for classifying these cost
15 pools as proportional, despite the Postal Service's inquiries.¹⁴ Instead, he has
16 chosen to use the costs that are modeled as distribution keys for the costs he
17 has not modeled; an activity that he, himself, stated was inappropriate. (Tr.
18 20/7349).

19 Witness Buc's cost pool reclassification proposal misses the point of why
20 the cost pool classifications in the letter models were necessary in the first place.
21 Cost pools are classified as proportional because the activities, and the costs
22 thereof, captured within those cost pools *are understood to vary in known*

¹² Docket No. R2000-1, PRC-LT-12 Part B and Docket No. R2005-1, PRC-LR-9.

¹³ Docket R2006-1, Tr. 20/7314

¹⁴ Docket No. R2006-1, Tr. 20/7290

1 **ways with the presort level, i.e.** the more finely presorted a piece is, the less
2 the cost of processing in a given cost pool. Witness Buc's "thought experiment"
3 neither presents a mail flow model depicting these extraordinary changes, nor
4 does it provide reasons why these cost pools are proportional **and vary within**
5 **each presort level.**

6 MMA witness Bentley relies on a similar approach, but separates the
7 modeled proportional costs from the nonmodeled proportional costs. The end
8 result, however, is the same. Most cost pools that were previously treated as
9 fixed are now classified as proportional cost pools, such that the cost
10 relationships between rate categories are distorted. In fact, the classifications
11 used by witness Bentley do not even correspond to those he has relied upon as
12 an MMA witness in past dockets. He now states "[T]here are no nonworkshared
13 related cost pools," but provides no evidence to substantiate that claim.¹⁵ He
14 therefore presents no factual basis for shifting large sums of costs from the
15 nonmodeled fixed classification to the nonmodeled proportional classification.
16 Witness Bentley also admits that his analysis was somewhat arbitrary, because
17 the mail flow model presented in my testimony in this docket did not allow him to
18 perform the cost pool shifts.¹⁶

19 The Commission's analysis in Docket No.R2000-1, where cost pool
20 classifications were debated at length, support the Postal Service's approach,
21 rather than the flawed approaches advocated by witnesses Buc and Bentley.
22 While it is no longer necessary to maintain three separate cost pool

¹⁵ Docket No. R2006-1, MMA-T-1, Appendix 1, p. 10.

¹⁶ Docket No. R2006-1, MMA-T-1, Appendix 1, pp. 9-10.

1 classifications, the Commission's analysis from Docket No. R2000-1 can easily
2 be used to determine which cost pools should be classified as proportional and
3 which cost pools should be classified as fixed. If a given cost pool contains tasks
4 that are included in the mail flow models, that cost pool is classified as
5 proportional. If not, that cost pool is classified as fixed.

6 I also note that the Office of Consumer Advocate witness Thompson,
7 OCA-T-4 inappropriately relies on USPS-LR-L-141 which uses separate auto and
8 non-auto cost pool classifications to support her calculations of First-Class Mail
9 workshare related savings. She does not provide any justification for separating
10 auto and not auto costs, nor does she address the problems related to auto and
11 non-auto cost identification as discussed by the Postal Service in its response to
12 POIR No.1, Question 1a in Docket No. R2005-1.

13 The Postal Service therefore recommends that the Commission adopt the
14 USPS cost pool classifications as presented in USPS-LR-L-48 and reject the
15 convoluted cost pool classification proposals described above.

16
17 **D. Expansion of the QBRM Cost Analysis.**

18
19 MMA witness Bentley and TW witness Mitchell both present testimonies
20 which recommend expanding the scope of the QBRM cost analysis. Both
21 criticize the Postal Service's determination to limit the derived QBRM cost
22 savings to costs incurred up to the point where each piece -- the QBRM and
23 handwritten First-Class reply mail pieces--receives its first barcoded sortation on
24 a BCS. MMA witness Bentley further argues that the Postal Service's approach

1 "represents an unjustified departure from the cost savings methodology
2 employed by the Postal Service and relied upon by the Commission in R2000-
3 1".¹⁷ Both witnesses fail to tell the whole story regarding the previous positions of
4 the Postal Service and Commission regarding QBRM cost saving estimates.

5 In Docket No. R97-1, the Postal Service proposed that a 3-cent discount
6 be extended to QBRM letters and cards.¹⁸ This discount was based on an
7 analysis presented in witness Miller's testimony (USPS-T-23) that measured a
8 4.016-cent savings.¹⁹ The savings were calculated to be the difference in mail
9 processing costs between a preapproved, prebarcoded First-Class Mail reply
10 mail piece and a handwritten First-Class Mail reply mail piece.²⁰ Cost models
11 were developed that captured mail processing costs up to the point where each
12 mail piece received its first sortation on a BCS.²¹ The worksharing related
13 savings measured between the two mail pieces was driven by the fact that
14 handwritten mail pieces incurred additional costs as they were processed
15 through the RBCS.²²

16 In Docket No. R2000-1, witness Campbell updated this cost study,
17 expanding the analysis beyond the incoming primary operation and including
18 incoming secondary costs as well.²³ In Docket No. R2001-1, the Postal Service
19 reconsidered the R2000-1 approach, and the R2001-1 QBRM analysis was
20 revised to follow the methodology originally presented and approved in Docket

¹⁷ Docket No. R2006-1, MMA-T-1, Appendix II, p.1 at lines 23 -24.

¹⁸ Docket No. R97-1, USPS-T-32, p. 7 at 2-4.

¹⁹ Docket No. R97-1, USPS-T-23, Exhibit USPS-T-23D.

²⁰ Docket No. R97-1, USPS-T-23, p. 2 at lines 12-14.

²¹ Docket No. R97-1, USPS-T-23, p. 3 at lines 8-10.

²² Docket No. R97-1, USPS-T-23, p. 11 at lines 5-6.

²³ Docket No. R2000-1, USPS-T-29, pp. 38-40.

1 No. R97-1.²⁴ This same methodology was followed in R2005-1.²⁵ The reasons
2 for this reversion are explained below.

3 Mail volume dictates how much processing is required before QBRM is
4 isolated from the residual cards and letter mail volume. Large volumes of QBRM
5 are likely to be held out in upstream operations. Smaller volumes are likely to be
6 isolated in downstream operations. If a given mailer did not provide QBRM mail
7 pieces to its customers, and those customers had to rely on handwritten reply
8 mail pieces, the volume would still be the same, *ceteris paribus*. The point at
9 which the mail is isolated would also be the same. The only avoided costs that
10 would be associated with the presence of a barcode on a QBRM mail piece
11 would be the RBCS-related costs required to apply a POSTNET barcode to a
12 handwritten reply mail piece.

13 As an example, a large volume BRM recipient would be more likely to
14 have its mail isolated in the automation outgoing primary ("FIM") operation. If that
15 mailer no longer provided BRM envelopes to its customers and they had to rely
16 on handwritten reply envelopes, that mail would no longer be isolated in the
17 automation outgoing primary operation. Instead, the Advanced Facer Canceler
18 System (AFCS) would lift the image and the mail piece would be processed
19 through RBCS. A barcode would ultimately be applied to that mail piece by the
20 Output Sub System (OSS). Given that the volume for this recipient would still be
21 large, the sort plan for the OSS would be modified to accommodate a separation

²⁴ Docket No. R2001-1, USPS-T-22, pp. 26-27.

²⁵ Docket No. R2005-1, USPS-T-22, pp. 4-5.

1 for that recipient. In this example, the cost difference between the two mail
2 pieces would consist solely of RBCS-related costs.

3 For low volume recipients, the result would still be the same. The mail for
4 low volume recipients is likely to be processed all the way through the system
5 and would not be isolated until all the mail for the delivery unit serving that
6 recipient was being processed in an incoming secondary operation. Given that
7 the volume would be low, this method would occur, whether or not the mail piece
8 was a QBRM mail piece or a handwritten reply mail piece. In this example, the
9 cost difference between the two mail pieces again would consist solely of RBCS-
10 related costs.

11 When an "exact piece comparison" is performed, it is clear that there are
12 no cost differences beyond the RBCS-related costs as described above. The
13 proposals to expand the scope of the QBRM cost study should therefore be
14 ignored.

15

16 **III. WITNESS BENTLEY'S RBCS COMPLAINTS**

17

18 MMA witness Bentley does not present any new RBCS-related data on
19 the record, but instead, throughout his testimony and library references, relies on
20 USPS supplied data.²⁶ Nevertheless, he repeatedly criticizes the accuracy of
21 that data which he has chosen to use in his analysis. Witness Bentley often talks
22 about how the Postal Service data overstate or understate certain RBCS costs.

²⁶ Docket No. R2006-1, MMA-T-1 and MMA-LR-1, 2 and 3.

1 His analysis, however, inappropriately relies on dissecting RBCS costs at the
2 component level.

3 An examination of costs at the operations level reveals that the results are
4 not as clear cut with regard to the direction of the model's overstatement or
5 understatement of costs.

6 **Table 1**

7 **First-Class Metered Mail Letters costs**

| Operation - Cost Pool | Cost Sheet Value | Cost Pool Value | Difference |
|-----------------------|------------------|-----------------|------------|
| ISS/OCR | 1.162 | 1.146 | 0.016 |
| RCR, REC, LMLM/LD15 | 0.134 | 0.378 | (0.245) |
| OSS-BCS/DBCS | 0.097 | ???? | ???? |

8 MMA-LR-1, pages 4 and 5

9 Table 1 compares the values shown for the relevant CRA derived cost
10 pools (MMA-LR-1, p. 4) to the model derived costs shown in the cost sheet
11 (MMA-LR-1, p. 5). As the models are structured, RBCS is defined to include the
12 ISS, RCR, REC, OSS, and LMLM operations. As shown above, the ISS cost
13 pool value is fairly close to the modeled cost sheet value. The LD 15 operations
14 (RCR, REC, and LMLM) appear to understate the cost pool value. As has been
15 stated on many occasions, however, the cost pool values are for all single-piece
16 metered letters, not just BMM letters, which are considered to be homogenous
17 trays of mail with machine printed addresses. Metered letters in general,
18 however, could have handwritten addresses, which could explain the
19 discrepancy between the cost sheet and cost pool values. Finally, the OSS costs

1 are imbedded in the BCS/DBCS cost pool such that those costs cannot be
2 compared and there is not a separate OSS cost pool value. Since OSS is part of
3 RBCS, it is not possible to conclude that the model as currently is structured,
4 understates or overstates the RBCS costs.

5 The RCR finalization rate, however, can be used to illustrate the benefits
6 of RBCS. The finalization rate, the rate at which the Postal Service successfully
7 reads the address in order to apply a barcode to single-piece letter mail was
8 initially 25 percent when RBCS was first deployed in 1992 and is now
9 approaching 80 percent. Table 2, clearly demonstrates how the Postal Service
10 and the mailing community continue to reap the benefits of the RBCS
11 investment.

12 **Table 2**

13 **Summary of Historical USPS RCR Finalization Rates**

| Years | RCR Finalization Rates |
|-------|------------------------|
| 2002 | 68.30% |
| 2003 | 70.50% |
| 2004 | 75.57% |
| 2005 | 78.40% |

14 USPS RBCS DATA

15 The Postal Service has traditionally used two separate CRA adjustments
16 factors in the unit calculations, one for auto costs and another for nonauto costs.
17 The CRA adjustment factors were applied to the models to bring the modeled
18 costs into alignment with the two separate CRA automation and nonautomation

1 costs. In this docket, the Postal Service presented automation and
2 nonautomation costs as one set of costs by shape. A single CRA adjustment
3 factor was developed to tie the modeled costs to the single CRA First-Class
4 presort letter cost.

5 Witness Bentley supports the combining of auto and nonauto costs and
6 uses the combined costs in his cost sheet.²⁷ He also agrees that the modeled
7 costs should be tied back to the CRA costs, but he proposes a tortuous and
8 unsupported methodology to make the CRA adjustments. He uses BMM CRA
9 unit cost data to make adjustments to the nonautomation model costs, and then
10 he uses a separate adjustment factor for the automation costs. His justification
11 for using separate adjustment factors is because he assumes there are errors in
12 the RBCS costs.

13 Neither the Postal Service nor the Commission has ever used the BMM
14 CRA unit cost data to make such adjustments to nonautomation presort letters
15 costs. Moreover, his methodology is flawed because it relies on his unsupported
16 assumption that RBCS costs are unreliable. Moreover, the modeled costs,
17 which are based on combined auto and nonauto costs, should be tied to a single
18 CRA cost number, as I have explained throughout this docket.

19

²⁷ Docket No. R2006-1, MMA-T-1, Appendix 1, p.10.

1 CHAIRMAN OMAS: This now brings us to oral
2 cross examination. Three requests for oral cross
3 examination have been filed; Ms. Anderson?

4 MS. WOOD: It's Ms. Wood, actually.

5 CHAIRMAN OMAS: I'm sorry.

6 MS. WOOD: Jennifer Wood for the APW. I
7 will be filling for Ms. Anderson.

8 CHAIRMAN OMAS: Would you introduce yourself
9 for the record, please?

10 MS. WOOD: Jennifer Wood for the American
11 Postal Workers Union.

12 BY MS. WOOD:

13 Q Good afternoon, Mr. Abdirahman; Jennifer
14 Wood.

15 A Good afternoon.

16 Q I just have a few questions for you. In
17 your testimony, you criticize Katherine Kobe's
18 testimony which is marked APWU-T-1, because she used
19 estimates of unit delivery costs based on assumptions
20 that DPS percentages vary by presort rate category.

21 The question is, isn't it true that Ms.
22 Kobe's use of the unit delivery cost data is
23 consistent with the use made of that data by the
24 Commission in previous rate cases?

25 A That's correct.

1 Q And isn't it true that Ms. Kobe's use of the
2 unit delivery cost data has the effect of increasing
3 the estimated cost advantage of presorted mail, as
4 compared to non-presorted mail?

5 A Can you repeat the question?

6 Q Ms. Kobe's use of the unit delivery cost
7 data has the effect of increasing the estimated cost
8 advantage of presorted mail, as compared to non-
9 presorted mail. Isn't that true?

10 A Well, in the last dockets, even the Postal
11 Service has used those numbers, not only the
12 Commission. That methodology of the Postal Service
13 proposing the leave the DPS percentages alone in this
14 case, because they believe those numbers are suspect.

15 Q But I'm not exactly sure that's answering my
16 question, though. Ms. Kobe's testimony does use those
17 numbers, and as a result, is not giving an advantage
18 to the presorted mail, as compared to the non-
19 presorted mail.

20 A It's giving an increasing advantage to
21 presorted mail than the non-presorted mail; is that
22 what you said?

23 Q It increases the cost; cost avoided, excuse
24 me.

25 A I'm not sure if it increases the cost

1 avoidance. It does play a part of the calculation.
2 Once you are voiding the costs -- I'm also talking
3 about the old methodologies. We use the mail
4 processing costs, and we also use the delivery unit
5 cost savings in the previous cases to estimate the
6 savings.

7 So I don't know. I have never done it
8 without those deleted costs. This is the only case
9 where I'm presenting it. But in all cases, I have
10 always presented it with the delivery costs in the
11 model. So I'm not getting what you're asking me; was
12 that increases or decreases.

13 Q Okay, well, we'll just move on and leave it
14 with that.

15 A Okay.

16 Q Just one final question, would you agree
17 with us that if the Commission does not accept the de-
18 linking of the single piece, first-class rates, that
19 it should continue to use the bulk metered mail as the
20 benchmark?

21 A Yes, that's why I explained my testimony;
22 that the BMM is still there; and I, myself, observed
23 their existence. And if the Commission decides not to
24 accept the de-linking proposal, the only alternative
25 that I see is the BMM, and that's as a costing

1 witness.

2 MS. WOOD: Okay, thank you very much, Mr.

3 Abdirahman. I have no more questions.

4 CHAIRMAN OMAS: Thank you, Ms. Wood.

5 Mr. Hall, before you begin, Mr. Abdirahman,

6 would you just not quite stay so close to the mike.

7 It's sort of getting a repeat.

8 THE WITNESS: Sure.

9 CHAIRMAN OMAS: Okay, thank you.

10 Mr. Hall?

11 MR. HALL: Thank you, Mr. Chairman.

12 CROSS EXAMINATION

13 BY MR. HALL:

14 Q Good afternoon, Mr. Abdirahman, my name is
15 Mike Hall. I represent Major Mailers Association, and
16 I'm going to be asking you some questions about your
17 rebuttal testimony.

18 A Good afternoon.

19 Q Could you please turn to page sixteen of
20 your rebuttal testimony?

21 A I have it.

22 Q On lines one and two, you say, "His
23 analysis, however inappropriately, relies on
24 dissecting RBCS costs at the component level."

25 A Yes.

1 Q The "his" or the "he" in that case is Mr.
2 Bentley?

3 A That's correct.

4 Q And the components you're talking about are
5 the ones that are shown in Table 1?

6 A That's correct.

7 Q Where in his testimony did he ever do
8 anything like that?

9 A Well, throughout his testimony, Mr. Bentley
10 complains about the RBCS costs. The question you're
11 asking me on line one, talks about that general sense;
12 not necessarily this table.

13 Q Well, in other words, he didn't ever dissect
14 the components of the RBCS cost, did he?

15 A He does talk about the components of RBCS,
16 whether he separates them or not. But he complains
17 about the whole process of RBCS.

18 Q Okay, I think we're just talking about
19 whether he dissects something or not. He didn't ever
20 break them up into the components that you show in
21 Table 1, did he?

22 A This component comes from his library
23 reference.

24 Q His components do? Well, when you say they
25 come from his library reference, they come via your

1 library reference. Isn't that right?

2 A I use the same numbers in my library
3 reference. But he took those numbers and used that in
4 his library reference. That's correct.

5 Q That's right. But he took them from your
6 library reference and used them in his; and in terms
7 of what he speaks about in his testimony, he's only
8 talking about RBCS costs in total, isn't he?

9 A I agree with you that he took these numbers
10 from library reference, as well as any other number
11 that Mr. Bentley used also came from my library
12 reference, in that sense.

13 But the issue we're talking about is RBCS;
14 whether you're talking about the entire number. But
15 the entire number is composed of sub-numbers. So if
16 he's talking about the entire number, I'm assuming
17 that he's also talking about the sub-components of the
18 RBCS.

19 Q Okay, so in other words, that statement was
20 based on an assumption that you made, which is either
21 right or wrong?

22 A That's correct.

23 Q Okay, let's look at the components that
24 you've listed in Table 1. Specifically, first, could
25 you tell me if the term "cost sheet value" -- does

1 that mean the results produced by your model?

2 A That's correct.

3 Q Then you note that there is a .245 cent
4 differential per piece in the case of RCR, REC,
5 LMLM/LLD-15 operations?

6 A That's correct.

7 Q Okay, that's a pretty significant
8 difference, isn't it?

9 A Yes, I note that it says LDC operations and
10 then lists the RCS, REC, LMLM appear to under-state
11 the cost per value. Of course, yes, that's an under-
12 statement.

13 Q Well, I'm just trying to figure out if
14 there's a significant difference between the .134 and
15 the .378 cents. AYes, and I'm saying those
16 numbers are less. Yes, I'm agreeing with you.

17 Q In other words, one is three times the
18 other.

19 A Right.

20 Q Almost -- now you offer as an explanation
21 for that significant difference the facts that the
22 cost pool value is for all single piece metered mail
23 letters, not BMM; and that metered mail letters in
24 general could have handwritten addresses. Is that
25 correct?

1 A That's correct.

2 Q Do all BMM letters go through the RBCS
3 operation?

4 A No -- you said BMM mail? Did you say BMM
5 mail or metered mail.

6 Q BMM.

7 A No.

8 Q BMM doesn't go through the RBCS?

9 A Oh, yes, I'm sorry. It does go through RBCS
10 to get bar codes, of course.

11 Q Okay, what percentage of metered mail
12 letters are handwritten?

13 A I don't have that figure off the top of my
14 head.

15 Q Do you know what percentage of metered mail
16 letters is pre-bar coded?

17 A No.

18 Q But metered mail letters also include --
19 besides single piece letters that you discuss that are
20 handwritten, they also include courtesy reply mail
21 letters, don't they?

22 A It also includes admitted bundle pieces,
23 also.

24 Q I just asked you about whether or not it
25 included courtesy reply mail?

1 A Yes, it could include.

2 Q Okay, and then you don't bundle the courtesy
3 reply mail.

4 A No, but metered mail is bundled, sometimes.

5 Q Well, thank you for the addition. I
6 appreciate that. I think we've already established
7 that courtesy reply letters generally have pre-bar
8 codes and finmarks, don't they?

9 A That's correct.

10 Q And the presence of finmarks and pre-bar
11 codes means that these letters always bypass the RBCS
12 operations listed in Table 1, don't they?

13 A That's correct.

14 Q So if handwritten letters included as part
15 of the metered mail letters tend to increase the cost
16 pool value, as you suggest, then courtesy reply mail
17 letters that are also included in metered mail letters
18 tend to reduce the cost pool value for those
19 operations, don't they?

20 A Could you repeat that question, please?

21 Q I'll try to break it down for you.

22 A Okay.

23 Q You said that handwritten letters included
24 as part of metered mail letters tend to increase the
25 cost pool value for the components that we've been

1 discussing.

2 A Yes.

3 Q Is that right?

4 A Yes.

5 Q Okay, and I'm suggesting to you, or I want
6 you to agree, that courtesy reply mail letters that
7 are also included in the metered mail letters tend to
8 reduce the cost pool value for those operations.

9 A It could.

10 Q It could or it does?

11 A It could. The reason I'm saying that, we
12 are looking at metered mail costs; and now you already
13 went to the QBRM.

14 Q No.

15 A I mean, that's what you are talking about.

16 Q No, I'm talking not about QBRM -- courtesy
17 reply mail. Do you know the difference between QBRM
18 and courtesy reply mail?

19 A Yes.

20 Q Do we need to go over that?

21 A No, but you're talking about two mail pieces
22 that go through two difference operations. They're
23 coming in a collection mail. One is, they're coming
24 in the collection mail. Then they have to be
25 separated. Then in order for them to be separated, at

1 the beginning they have to go through the same
2 operation. So they are coming in the collection mail.

3 If it's mail-in pieces and if it's CRN
4 pieces, they will come in the collection mail. Is
5 that what we are talking about; or are we talking
6 about separate pieces that are trade? I just want you
7 to clarify the question.

8 Q No, these are regular collection mail. They
9 are metered mail letters. They are courtesy reply
10 mail letters.

11 A That's correct.

12 Q Okay, and I think we are in agreement that
13 those letters bypass the RBCS operation --

14 A That's correct, yes.

15 Q -- that are listed in Table 1.

16 A That's correct.

17 Q The specific ones that I won't repeat, but
18 the ones we've been discussing, right?

19 A Yes, yes.

20 Q And the fact that those courtesy reply mail
21 letters are included in metered mail letters would
22 tend to reduce the cost pool value, wouldn't they?

23 A It could.

24 Q Do courtesy reply mail envelopes have more
25 reliable addresses?

1 A Yes, they do, of course.

2 Q Okay, and that fact saves money, doesn't it;
3 or reduces costs, whichever you prefer?

4 A Yes, because it will make it easy for the
5 pieces to be processed.

6 Q Okay, let's look at page two of your
7 testimony, if we could.

8 A I have it.

9 Q You say there that Postal Service data shows
10 that RBCS has consistently improved over time.

11 A What page are we talking about?

12 Q Page two.

13 A Of my testimony?

14 Q Of your testimony.

15 A My page two of my testimony says, "Finally,
16 my testimony rebuts MMA on final criticism." Are you
17 talking about page 22, maybe?

18 Q No, page two -- it's the second sentence on
19 that page.

20 A Oh, okay, okay, yes.

21 Q There are only two.

22 A Yes.

23 Q Right.

24 A "The Postal Service data shows that RBCS are
25 consistently improved over time." Yes, I see that.

1 Q Okay, do you mean by "consistently improved
2 over time" that your models have been becoming more
3 accurate in measuring those costs?

4 A No, what I mean is, if you look at page 17,
5 Table 2 in my testimony --

6 Q Good, that's where I was going next. So let
7 me catch up with you here.

8 A Okay.

9 Q Now basically Table 2 shows RCR finalization
10 rates, and shows that between 2002 and 2005, they have
11 improved -- I think would be a reasonable term to call
12 it -- from 68 to 78 percent. Is that right?

13 A Right, and that figure 78 is what I use in
14 my library reference as part of the calculations.

15 Q Okay, now you say that that table, and I'll
16 quote now, "Clearly demonstrates how the Postal
17 Service and the mailing community continue to reap the
18 benefits of the RBCS investment." Do you see that?

19 A Yes.

20 Q Now are you here rebutting something that
21 Mr. Bentley said?

22 A Yes, I am.

23 Q Okay, are you under the impression that Mr.
24 Bentley is claiming that there is no benefit of the
25 Postal Services' RBCS investment?

1 A I'm rebutting the selective criticism of Mr.
2 Bentley to the RBCS data that's in my cost models.

3 Q Now let's just try to focus on my questions
4 and see if you can answer them.

5 A Okay.

6 Q Are you under the impression that Mr.
7 Bentley is claiming that there is no benefit of the
8 Postal Services' RBCS investment?

9 A I believe Mr. Bentley is criticizing the
10 RBCS data in the cost models and, as such, he may be
11 implying that the RBCS system that the Postal Service
12 has been employing is not working the way it was
13 supposed to.

14 Q Okay, so then do you think then that Mr.
15 Bentley is recommending that the Postal Service rip
16 out the RBCS system?

17 A I never said that.

18 Q No, but I'm trying figure out. I'm trying
19 to parse what you're saying and where you found it in
20 Mr. Bentley's testimony, that you've got something
21 that you're rebutting.

22 A I'm rebutting Mr. Bentley's criticism of
23 RBCS data.

24 Q And did Mr. Bentley ever say that there was
25 no benefit from the RBCS system?

1 A But when he criticized the data, and how the
2 data is being used, I had the understanding that he's
3 criticizing the RBCS system.

4 Q Is he maybe just criticizing how the costs
5 are reflected in the models, and whether or not the
6 models accurately reflect the costs of the RBCS
7 system?

8 A Well, that's why I chose to put this table
9 in my rebuttal testimony to prove that the RR
10 finalization rate has been improving.

11 MR. HALL: Okay, well, let's then turn to a
12 document -- and by the way, Mr. Chairman, I have
13 copies of three cross examination exhibits that I'll
14 be working with here. They are sitting right there,
15 Commissioner Tisdale, if you could do me the favor of
16 passing them down, that would be great.

17 BY MR. HALL:

18 Q Mr. Abdirahman, do you have before you have
19 before you a one page exhibit entitled, "Historical
20 BMM and Automation Letter Costs" identified as Exhibit
21 MMA-RX-1?

22 A Yes, I do.

23 Q Now that shows over a period between the R-
24 2000-1 case, 1998 and 1999, up through R-2005-1,
25 doesn't it?

1 A Yes.

2 Q And it shows the amount by which the model
3 under-estimates the CRA/BMM costs?

4 A Yes.

5 Q Now that difference has remained pretty
6 constant over that period of time, hasn't it?

7 A Can I make a couple of questions first,
8 before I proceed.

9 Q Well, a couple of questions?

10 A Corrections.

11 Q Oh, sure.

12 A R-2000-6, the last number, column five and
13 column six, are those numbers coming from the USPS LR-
14 48?

15 Q Yes, they are.

16 A Okay -- just because I have LR-48 with me,
17 and I just want to change those numbers because I
18 think they are wrong. It may be my mistake.

19 Q Okay, well, let's do that.

20 A Can I do that? Okay, the last number,
21 instead of 2.73, it should be 2.80; and the last
22 number in column six, instead of 2.69, it should be
23 2.76; and the percentage change will remain the same.
24 So there's no change there.

25 MR. HALL: Okay, thank you -- at this point,

1 Mr. Chairman, I'd like to have this exhibit
2 transcribed and admitted into evidence. At the
3 conclusion of cross examination, we will make sure
4 that the changes that Mr. Abdirahman gave us were
5 inserted there.

6 (The document referred to,
7 previously identified as
8 Exhibit No. MMA-RX-1, was
9 received into evidence.)

10 BY MR. HALL:

11 Q Now in the exhibit that we've just been
12 discussing, we couldn't compute a BMM comparison for
13 R-2006-1 because the Postal Service didn't provide a
14 BMM/CRA unit cost using the Postal Service cost
15 methodology.

16 A That's correct.

17 Q Is that right?

18 A Yes.

19 Q And there also isn't a model-derived unit
20 processing cost under your methodology for that
21 docket. Is that right?

22 A Yes.

23 Q So we do, however, have a comparison that we
24 can make using the Commission's methodology. So do
25 you have before you a document entitled, "Historical

1 BMM and Automation Letter Costs, PRC Cost Method,"
2 that is identified as Exhibit MM-RX-2?

3 A Yes, I do.

4 (The document referred to was
5 marked for identification as
6 Exhibit MM-RX-2.)

7 BY MR. HALL

8 Q Okay, and there we have essentially the same
9 comparison. If we're looking at column four, the
10 percent by which the model under-estimates the CRA
11 costs -- that's the BMM model --

12 A That's correct.

13 Q -- that that's stayed relatively negative
14 over the period. In fact, it was negative 20 percent
15 in R-2000-1; and in R-2006, it's negative 36 percent?

16 A Yes -- can I comment on the two of them; or
17 should I start with the first one, which essentially
18 is the same comments that I have for both of them?

19 Q Oh, do you have corrections?

20 A Not corrections, but I wanted to make a few
21 comments regarding what we just talked about.

22 Q Well, it probably would be something your
23 counsel could discuss with you on redirect. So why
24 don't we save it for that?

25 A No, but there are some matters that need to

1 be noted, because you simply stated those numbers are
2 under-stated and you're listing those numbers. So I
3 just want to put them in the context, if it's
4 possible. Can I explain what I mean?

5 Q Sure, go ahead.

6 A First of all, your list of BMM, minute mail,
7 you know we don't have BMM minute mail. We use minute
8 mail as a proxy. So that number, it's not actually
9 BMM costs. That's something that needs to be noted,
10 number one.

11 Because secondly, the minute mail consists,
12 as we talked about, middle bundles, machinable and
13 non-machinable. The BMM does not bypass this
14 cancellation in middle prep. The middle cost number
15 we're using does not bypass those operations.

16 So this number is already over-stated, the
17 middle number. So the BMM number you listed is not
18 the actual cost of BMM. That's one note I want to
19 make.

20 Q Okay, well, I think we've already agreed
21 that both you and MMA and the Commission have used
22 metered mail as a proxy for BMM.

23 A Yes, I just wanted to make that note,
24 because this is bulk rated mail. So I wanted to make
25 that note.

1 Q Okay, I appreciate that, and with that --

2 A Also, I want to comment on the automation
3 numbers you have here, your listing. The automation
4 numbers you list from R-2000-1, all the way to R-2005-
5 1, they are part of the auto and non-auto, separated
6 out, on which we already expressed in the last case in
7 R-2005, one POR, one question, 1-A, that the problems
8 of auto and non-auto impacted those numbers.

9 Q With respect to that note that you just
10 made, nevertheless, the numbers are what the
11 Commission used and what the Postal Service used in
12 those cases; isn't that right?

13 A That's correct.

14 Q Okay.

15 A And the last column five and column six and
16 column seven, those numbers are Auto and Non-Auto
17 combined with value IOCS for design change impacts. I
18 just want to makes those notes and we can proceed for
19 cross-examination.

20 Q Oh, good. As a matter of fact, I wanted to
21 note the fact that it reflected the IOCS cost changes,
22 too, because that has the effect of increasing the CRA
23 cost; isn't that right, for automation letters?

24 A Could you explain that more?

25 Q Well, maybe your understanding -- do you

1 know what the effect on automation letters was, this
2 first-class automation letters, from the change in the
3 IOCS methodology?

4 A You said that it increased --

5 Q That's right.

6 A -- automation costs. So, whatever -- the
7 CRA numbers comes from -- it's an input into my model.
8 It comes from the different witnesses. So, whatever
9 changes are there, the changes are there.

10 Q Okay. Well, you were discussing it. You
11 brought it up.

12 A Right.

13 Q But, that's fine. And so, it changed it,
14 for example, in column five, from 2.53 cents to 3.15
15 cents; right?

16 A Uh-huh.

17 MR. HALL: Okay. Let's see, I'm not sure, I
18 got interrupted. I already asked that this be
19 transcribed and admitted into evidence. If not, at
20 least let me do so now.

21 CHAIRMAN OMAS: Let's do it just to make
22 sure. I can't remember. I know you began to ask that
23 it be done and I'm not sure we did it. But --

24 MR. HALL: Okay. Well, then, I ask that
25 this exhibit previously identified and discussed with

1 the witness be transcribed --

2 CHAIRMAN OMAS: What exhibit? What exhibit?
3 Exhibit 1 or Exhibit 2?

4 MR. HALL: I believe Exhibit 1 is already
5 in. This would be Exhibit MMA-RX-2.

6 CHAIRMAN OMAS: Okay, thank you.
7 (The document previously
8 marked for identification as
9 MMA-RX-2 was received in
10 evidence.)

11 BY MR. HALL:

12 Q Now, why don't we take a look at a
13 comparison of the Postal Service's and MMA's unit
14 processing cost for selected letter types. Do you
15 have before you a one-page document that is identified
16 as Exhibit MMA-RX-3 and is entitled 'Comparison of
17 USPS and MMA unit proportional processing costs for
18 selected first-class categories?

19 (The document referred to was
20 marked for identification as
21 MMA-RX-3.)

22 A Yes, I do.

23 Q Using the PRC cost methodology?

24 A Yes.

25 Q Now, the letter categories that are being

1 compared are BMM, NAMMA, Non-Auto and Auto MAADC;
2 right?

3 A That's correct.

4 Q And the exhibit shows that BMM, Non-Auto,
5 and NAMMA letters all go through the RBCS; right?

6 A That's correct.

7 Q And they do so to get a bar code sprayed on
8 them, right?

9 A Uh-huh.

10 Q And the Auto MMADC letters, by contrast,
11 don't go through the RBCS, because they already have a
12 bar code on them?

13 A That's correct.

14 Q The bar code that was applied by the mailer?

15 A Uh-huh.

16 Q Now, I would like you to note and confirm
17 for me that under the heading 'model unit cost,' that
18 the USPS and MMA cost for all four letter categories
19 are identical.

20 A That's correct.

21 Q Okay. Now, let's look at the adjusted model
22 unit cost, because there are obvious differences
23 there.

24 A Yes.

25 Q First, MMA and the Postal Service have

1 exactly the same adjusted unit cost for BMM; is that
2 correct?

3 A Yes.

4 Q That's 8.11 cents.

5 A Uh-huh.

6 Q In fact, that number comes right out of the
7 CRA, doesn't it?

8 A Yes.

9 Q Okay. The difference occurs in the other
10 letter categories, where the USPS unit cost
11 differences between BMM and NAMMA is fairly large,
12 about 2.7 cents, I think. But then the unit cost for
13 Non-Auto, NAMMA, and Auto MAADC are all very close.
14 Do you see that?

15 A Yes.

16 Q And in contrast, MMA or Mr. Bentley's
17 analysis shows that there is very little difference
18 between the unit cost to process BMM, NAMMA, and Non-
19 Auto letters, but that there is a difference of about
20 3.3 cents, I think, between the cost of BMM and Auto
21 MAADC letters; is that correct?

22 A Uh-huh.

23 Q Now, what is it about BMM letters, which
24 causes the model derived unit cost to be about 2.9
25 cents lower than the CRA derived unit cost; yet,

1 according to your analysis, the same model derived
2 shortfall does not exist for NAMMA or Non-Auto
3 letters?

4 A I don't think I'm following you. Would you,
5 please, repeat the question?

6 Q Yes. Let's look at -- now, we're comparing
7 USPS model unit costs to the USPS adjusted unit cost.

8 MS. MCKENZIE: Mr. Chairman, I would like to
9 clarify for the record, this is PRC cost methodology
10 and not Postal Service cost methodology.

11 MR. HALL: I tried to make that clear in the
12 beginning and I believe the exhibit actually says it.
13 But, I apologize if I'm casting aspersions anywhere.

14 BY MR. HALL:

15 Q So, now, what I'm comparing, is for example,
16 BMM to USPS; right?

17 A You're comparing --

18 Q There's a fairly significant difference and
19 that difference is about 2.9 cents.

20 A Between 5.18 and 8.11, is that what you're
21 comparing?

22 Q Yes.

23 A Yes.

24 Q But, there isn't the same difference, there
25 isn't even a very large difference between the model

1 unit cost for the other three categories and the
2 adjusted model unit cost for those categories.

3 A Okay. First of all --

4 Q I'm sorry, I'm sorry. That only applies to
5 NAMMA and Non-Auto, is that right?

6 A Yes. Again, I will repeat again, 8.11, that
7 you said it was BMM, it's not BMM. It's metered
8 letters. So, that's another -- and always metered --
9 BMM letter that you have here is overstated. That's
10 what I want to make sure that you understand that.

11 Q Yes, indeed I do.

12 A Okay.

13 Q So, we're on the same page so far?

14 A We're on the same page so far. So, now,
15 you're comparing the NAMMA, you're comparing the BMM.
16 Am I correct?

17 Q Well, first, I compared BMM, the difference
18 between the adjusted model unit cost -- this is again,
19 USPS methodology, but not really, USPS using --

20 A PRC.

21 Q It's using PRC's cost attribution
22 methodology versus the 5.18 cents shown to the left
23 under 'model unit cost.' Do you see that?

24 A Yes.

25 Q Okay.

1 A I think you're adjusting to the CRA.

2 Q Right. And so, we said that there is a
3 fairly big difference between those unit costs, the
4 model unit cost and the adjusted model unit cost. We
5 agreed to that, didn't we?

6 A Yes, we did.

7 Q And then, we observed that for NAMMA and
8 Non-Auto, there wasn't a big difference.

9 A Yes.

10 MR. HALL: Okay. At this point, I would ask
11 that this exhibit be transcribed and admitted into
12 evidence.

13 CHAIRMAN OMAS: Would you identify the
14 exhibit, please?

15 MR. HALL: Yes, sorry. It's Exhibit MMA-RX-
16 3.

17 CHAIRMAN OMAS: Thank you. Without
18 objection, so ordered.

19 (The document previously
20 identified as MMA-RX-3 was
21 received in evidence.)

22 //

23 //

24 //

25 //

Historical BMM and Automation Letter Costs
(USPS Cost Method, Cents)

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | |
|----------------|------------------------|---------------|---------------------------|--|------------------------|---------------|---------------------------|---|---------------|
| Docket No. | Bulk Metered Mail | | | | Automation Letters | | | | Source |
| | CRA Proport Cost | Model Cost | Prop Factor (1)/(2) | Model % Under- Estimate ((2)-(1))/(1) | CRA Proport Cost | Model Cost | Prop Factor (5)/(6) | Model % Over- Estimate ((6)-(5))/(5) | |
| R2000-1 (1998) | 6.98 | 5.27 | 1.32 | -25% | 2.55 | 2.87 | 0.89 | 12% | USPS-LR-I-162 |
| R2000-1 (1999) | 6.86 | 5.41 | 1.27 | -21% | 2.63 | 2.92 | 0.90 | 11% | USPS-LR-I-477 |
| R2001-1 | 6.45 | 4.28 | 1.51 | -34% | 2.14 | 2.68 | 0.80 | 25% | USPS-LR-J-60 |
| R2005-1 | 6.48 | 4.45 | 1.45 | -31% | 1.89 | 2.67 | 0.71 | 41% | USPS-LR-K-48 |
| R2006-1* | N/A | N/A | N/A | N/A | 2.73 | 2.69 | 1.01 | -1% | USPS-LR-L-48 |

*Represents change of method for determining the CRA Unit Cost
(BMM data is not available)

Historical BMM and Automation Letter Costs
(PRC Cost Method, Cents)

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | |
|----------------|------------------------|---------------|---------------------------|--|------------------------|---------------|---------------------------|---|---------------|
| Docket No. | Bulk Metered Mail | | | | Automation Letters | | | | Source |
| | CRA Proport Cost | Model Cost | Prop Factor (1)/(2) | Model % Under- Estimate ((2)-(1))/(1) | CRA Proport Cost | Model Cost | Prop Factor (5)/(6) | Model % Over- Estimate ((6)-(5))/(5) | |
| R2000-1 (1998) | 7.88 | 6.31 | 1.25 | -20% | 2.79 | 3.38 | 0.83 | 21% | USPS-LR-I-147 |
| R2000-1 (1999) | 7.83 | 6.43 | 1.22 | -18% | 2.84 | 3.43 | 0.83 | 21% | USPS-LR-I-478 |
| R2001-1 | 7.75 | 5.48 | 1.41 | -29% | 2.42 | 3.42 | 0.71 | 41% | USPS-LR-J-84 |
| R2005-1 | 7.75 | 5.24 | 1.48 | -32% | 2.27 | 3.10 | 0.73 | 36% | USPS-LR-K-110 |
| R2006-1 | 8.11 | 5.18 | 1.56 | -36% | 2.53 | 3.02 | 0.84 | 19% | USPS-LR-L-141 |
| R2006-1* | N/A | N/A | N/A | N/A | 3.15 | 3.02 | 1.04 | -4% | USPS-LR-L-110 |

*Represents change of method for determining the CRA Unit Cost
(BMM data is not available)

**Comparison of USPS and MMA Unit Proportional
Processing Costs For Selected First-Class Categories**
(PRC Cost Methodology, Cents)

| First-Class Letter Category | RBCS Processing? | Model Unit Cost | | Adjusted Model Unit Cost | |
|--------------------------------|---------------------|-----------------|------|--------------------------|------|
| | | USPS | MMA | USPS | MMA |
| BMM | Yes | 5.18 | 5.18 | 8.11 | 8.11 |
| NAMMA | Yes | 5.19 | 5.19 | 5.42 | 8.12 |
| NonAuto | Yes | 5.17 | 5.17 | 5.40 | 8.09 |
| Auto MAADC | No | 5.16 | 5.16 | 5.39 | 4.81 |

Sources:

USPS-LR-L-141

MMA-LR-1

USPS-LR-L-141

MMA-LR-1

USPS-LR-L-110

USPS-LR-L-110

1 BY MR. HALL:

2 Q Now, how is it possible, Mr. Abdirahman,
3 that Auto MMADC letters could cost the same as NAMMA
4 and Non-Auto?

5 A First, let me make some explanation.
6 There's no rate that they would have called NAMMA.
7 There's only one rate for Non-Auto. So, that's
8 something I want to make sure that you understand.
9 Number two, the Non-Auto mail is heavily pre-sorted in
10 three digit and five digit. Then, makes the IDC. And
11 as I was discussing before, for the -- and I was
12 discussing it before, our automation equipment, our
13 automation technology, the Postal Service has been
14 trying to improve the RBCS, the technology it takes to
15 bar code unbar-coded pieces. So, you would not expect
16 the difference between Non-Auto and Auto -- you would
17 expect them to be shrinking, because, now, we can put
18 bar code to pieces more efficiently.

19 Q Roughly 78 percent.

20 A Right.

21 Q Meaning that there are 22 percent that don't
22 get a bar code put on them, right?

23 A No. What it means, that's RCR. But, I
24 mean, it will eventually be put bar code, because the
25 mail will go up to the Rec Center and someone will

1 identify the number. It will be finalized; not in
2 RCR, but in the Rec Center. Eventually, they will be
3 bar coded.

4 Q Is there any advantage to have a bar code on
5 them?

6 A Of course.

7 Q And so, isn't an advantage for the mailer to
8 put a pre-bar code on, isn't there?

9 A I guess that's why they get a discount.

10 Q That's right.

11 A Yes.

12 Q And I think we've said that NAMMA letters
13 and Auto MAADC letters, they're pre-sorted to the same
14 degree; is that correct?

15 A No. Automation MAADC is less pres-sorted
16 than Non-Automation. Non-Automation is heavily pre-
17 sorted, three digit and five digit.

18 Q I'm talking about NAAMA.

19 A NAAMA is not automation mail. There's no
20 such rate that we'll call NAAMA. There's only one
21 rate that will go into Non-Automation.

22 Q What do you use as the benchmark for the
23 delivery cost --

24 A NAAMA.

25 Q -- in the last case?

1 A NAAMA.

2 Q So, it doesn't exist, but that's what you
3 used?

4 A It exists -- in Non-Automation, there's only
5 one rate cut that will exist, Non-Automation. We're
6 talking about as a rate category, it doesn't exist.

7 Q And I'm talking about costs.

8 A Yes, it does exist cost.

9 Q Okay.

10 A That's where these numbers come from.

11 Q Good. So, we do agree that it exists for
12 costs?

13 A But, you're asking me practicality. I'm
14 saying that in practicality, Non-Automation is heavily
15 pre-sorted in three and five digit, than Automation
16 mixed ADC. And, also, I have also given you a second
17 reason, which is that we are more efficient to put bar
18 code on the non-bar-code pieces and that's why you
19 would expect the difference to be shrinking.

20 Q Well, okay. On page six, footnote seven,
21 you indicate, and I believe you've indicated probably
22 in your direct testimony, as well, that in R2001-1 and
23 R2005-1, the Postal Service proposed that NAAMA
24 delivery costs be used as a proxy for BMM delivery
25 costs, because 'they share similar characteristics to

1 BMM;' isn't that right?

2 A Yes.

3 Q Okay. If BMM and NAAMA are similar, as you
4 claim, would you agree that whatever similarities that
5 you're relying upon are not reflected in the cost to
6 process BMM letters at 8.11 cents and NAAMA letters
7 are 5.42 cents?

8 A Well, as you indicate -- could you, again,
9 repeat the question? I missed the numbers you are
10 saying, because I don't see them here.

11 Q You're saying that NAAMA and BMM are
12 similar.

13 A Yes. They have similar --

14 Q I'm just saying whatever similarities you're
15 relying on, since you haven't told us what they are,
16 whatever they are, they're not reflected in the fact
17 that there's a fairly large difference in the adjusted
18 model unit cost of BMM at 8.11 cents and NAAMA at 5.42
19 cents.

20 A First, and I think I've talked about this
21 before in this case or in an earlier case, R2005-1,
22 the difference between -- I mean, the similarities
23 that I'm talking about between NAAMA and BMM is that
24 they both are non-idle, they're both are -- they're
25 both are -- they're not bar coded. They have similar

1 characteristics than BMM. I don't see any difference.

2 Q Okay. So, why aren't the costs the same?

3 A BMM, there's an actual cost of BMM. That's
4 a proxy cost. There's no such thing BMM cost. We use
5 metered mail as a proxy.

6 Q And so, you're saying the proxy is off about
7 2.7 cents, is that your testimony?

8 A Well, the proxy includes cancellation and
9 middle prep. The proxy costs includes cancellation
10 and middle prep, which BMM does not incur.

11 Q Does that account for the 2.7 cents?

12 A That accounts almost close to a penny.

13 Q Okay. So, we still have a difference, don't
14 we?

15 A Yes.

16 Q If they're similar, they're very similar,
17 the cost should be similar; right?

18 A But, I think in the realm of estimating, any
19 estimate could overstate, accurately state, or
20 understate actual value. So, your whole point of
21 talking about some numbers are not there. We have a
22 CRA adjustment factor that we tie back everything at
23 the end of each calculation. So, that should be taken
24 --

25 Q The numbers that we've been talking about

1 are already tied back to the CRA, aren't they? Look
2 at Exhibit RX3, please. Under adjusted model unit
3 cost USPS -- I'm comparing, and I think you were on
4 the same page with me, comparing 8.11 cents to 5.42
5 cents.

6 A Again, I think you are -- you're believing
7 that 8.11 cent, that 8.11 cent is not the actual BMM
8 cost. You're assuming that to be the constant number
9 and everything should equal to that, and I don't
10 believe that.

11 Q Well, then, how can you use it as a reliable
12 benchmark --

13 A I don't use --

14 Q -- if you don't understand what the costs
15 are and if they're not similar to another mail piece
16 that you say is very similar to BMM?

17 A First of all, I'm not using BMM as an actual
18 benchmark in this case. So, let me make that clear.
19 Number two, you are -- I think you are mixing apples
20 and oranges, Mr. Hall, and I told you this, that any
21 cost estimate can overstate, accurately state,
22 understate the actual value. So, that should explain
23 it. There will always be some difference in cost.

24 Q I'm just talking about the degree of
25 difference, Mr. Abdirahman. These numbers --

1 A And now, we're --

2 Q These numbers come from your library
3 references.

4 A And now we're talking about one penny
5 difference. Is that what you're talking about?

6 Q You said that's for canceling?

7 A Canceling and middle prep. That's close to
8 a penny.

9 Q And that would be about .74 cents?

10 A About .74 cents, yes.

11 Q Okay. And that comes out of library
12 reference 141?

13 A Yes, which are --

14 Q Okay. Which, then we're left with the two
15 cent difference.

16 A Which I'm not sponsoring. Let me make that
17 clear.

18 Q I'm right with you on that. In terms of
19 total mail processing cost, it's 13.13 for BMM and
20 7.19 for NAAMA.

21 A And, again, I don't have -- I don't have
22 those --

23 Q Do you recognize those numbers or would you
24 like to have your memory refreshed?

25 A Is that 148 -- 141?

1 Q That comes from 141.

2 A I don't have that with me.

3 MR. HALL: Well, let me have somebody hand
4 up a copy to you.

5 \ (The witness is handed the document.)

6 THE WITNESS: Yes.

7 BY MR. HALL:

8 Q Now, the numbers I gave you were, I believe,
9 13 -- it's exactly 13.129 cents for BMM --

10 A Yes.

11 Q -- and 7.191 cent for NAAMA.

12 A Yes.

13 Q Okay. Now, I just want you to recognize
14 that they're very different, aren't they?

15 A This number comes straight from CRA, the
16 13.129. And the number over here is the model cost of
17 non-automation machinable mixed ADC. I have them
18 here.

19 MS. MCKENZIE: I would also like to note for
20 the record that one document comes from L141. The
21 second document, which has the NAAMA cost, comes from
22 a different library reference, which would be L110.

23 MR. HALL: Right.

24 THE WITNESS: One has combined Auto -- one
25 combines Auto and Non-Auto and this one comes from a

1 bulk meter mail CRA cost.

2 MR. HALL: Right.

3 BY MR. HALL:

4 Q Right. These are total processing costs,
5 right, and one is for NAAMA and one is for BMM;
6 correct?

7 A This one is model cost and one is from CRA.

8 Q Right. It's a reconciled CRA, right? Let's
9 turn to pages four and five of your testimony, please.
10 There, you devote almost a page roughly to refuting
11 what you claim is Mr. Bentley's position, that BMM
12 letters do not exist; is that right?

13 A Yes.

14 Q Okay. And your specific reference is to
15 Appendix 1, page three, lines 11 through 13 of his
16 testimony?

17 A Yes.

18 Q Do you happen to have that with you?

19 A I have it.

20 Q Okay. Why don't you read the sentence,
21 please, out loud?

22 A 'BMM does not meet this criteria for several
23 reasons. First and foremost, there's no basis to
24 assume that BMM letters, if they, in fact, exist, are
25 the most likely mail to shift from single piece to

1 bulk.'

2 Q Okay. Let's take out 'if they, in fact,
3 exist,' which I think is probably the nub of your
4 problem. Do you agree with the statement that there
5 is no basis to assume that BMM letters are the most
6 likely to shift from single piece to bulk?

7 A The Commission has, in R2000-1, stated the
8 following. Do you want me to read?

9 Q No. I want to have your opinion, whether or
10 not you agree with the statement that there is no
11 basis to assume that BMM letters are the most likely
12 to shift from single piece to bulk.

13 A Keeping in mind that the Postal Service is
14 proposing a de-linking proposal, which I'm also
15 supporting, but I don't see anything else out there,
16 if the de-linking proposal is rejected, something that
17 the Commission and the Postal Service have agreed in
18 the past, which was litigated, discussed in detail,
19 other than BMM.

20 Q Okay. And that was some six years ago or
21 so. Well, let's get to this case. Do you agree with
22 USPS witness Taufique's testimony that BMM is no
23 longer the type of mail most likely to convert to work
24 share mail?

25 A Mr. Taufique will, hopefully the day after

1 tomorrow, will explain that issue and I think I should
2 -- since he's the person proposing de-linking, I
3 should leave that for him. But --

4 Q So, he would be the better judge of what
5 type of mail would be most likely to convert from
6 single piece to bulk?

7 A We --

8 Q You're only talking in terms of what you say
9 is a litigated benchmark?

10 A I'm talking about -- that's correct.

11 Q Right. So, you're not talking about other
12 facts or considerations that Mr. Taufique might have?

13 A I'll let the litigation discussions in the
14 Commission in the past cases stand for itself when it
15 comes to BMM.

16 Q And in this case, you will let Mr.
17 Taufique's testimony take precedence over yours?

18 A Well, I'm not -- in my direct case, I'm not
19 proposing BMM.

20 Q Right, okay. Okay, I think we can skip some
21 of this. Let's discuss now your recent citing of BMM.

22 A Okay.

23 Q And that should be on page five, lines 20 to
24 22, where you say in September of this year, you,
25 personally, observed hundreds of trays of BMM at the

1 Southern Maryland processing plant.

2 A That's correct.

3 Q Where is that plant located?

4 A Maryland, southern Maryland.

5 Q Where in Maryland? Like a city name.

6 A The P.G. County -- I don't exactly know the
7 city.

8 Q Is it a big city that's nearby? Or is it a
9 little town? Or --

10 A I do know P.G. County. Everyone knows P.G.
11 County.

12 Q Except the person that is asking you the
13 questions. What was the purpose of your trip to this
14 processing plant?

15 A We often go to different plants, delivery
16 units, to observe, to conduct the mail processing and
17 this was part of the visit.

18 Q Okay. And this is something you do how
19 often every year?

20 A Sometimes, I'll go as often as four times a
21 year, sometimes more than that, depending on the need.

22 Q To different plants?

23 A To different plants.

24 Q But located all around Washington, D.C., is
25 that right?

1 A Some of them outside.

2 Q Okay. What time did you make this
3 observation of hundreds of trays of BMM?

4 A I believe it was -- I'm not sure, maybe
5 11:00 in the morning, 12:00 in the afternoon, sometime
6 in that range, and I was there about maybe one-hour-
7 and-a-half, looking at the plant. There's two plants
8 next to each other. One is the BMC and the other one
9 is the PNDC, attached together.

10 Q Okay. And where were you when you observed
11 these trays of mail?

12 A In the processing plant inside.

13 Q Inside the plant?

14 A Yes.

15 Q Not at the loading dock?

16 A No.

17 Q So, you didn't see how the trays got into
18 the plant?

19 A No.

20 Q And you don't even know if they were brought
21 to that plant. Could they have come from some other
22 office?

23 A It came in to be processed. The mail was
24 there to be processed.

25 Q But, a processing plant gathers mail from a

1 wider area, doesn't it?

2 A Yes.

3 Q Okay. Now, you say hundreds of trays. How
4 many trays were there?

5 A I saw hampers, minimum I saw maybe 10-15
6 hampers.

7 Q Hampers?

8 A Hampers. Hampers contain -- you can fit in
9 maybe each close to 60-70 trays. So, about -- it's a
10 hamper, this big, and it's deep.

11 Q Okay.

12 A I don't know if you've visited -- Mr.
13 Berman, I'm sure he knows what hamper is. I hope so.

14 Q I think you're drilling a dry hole over
15 here. Were these hampers of mail or were they trays
16 of mail?

17 A Hampers -- trays of mail inside hampers.

18 Q Okay. And would a hamper be like a cloth-
19 sided thing, maybe that high, and it's pushed around
20 the plant or something?

21 A Yes.

22 Q Okay. What size were these trays?

23 A Normal trays. It's a lot smaller, but that
24 wide.

25 Q Okay. And were the trays sleeved and

1 banded?

2 A Some of -- yes. Some of them, they had the
3 cover, some did not.

4 Q Okay.

5 A And I had to pull them and look at the
6 pieces.

7 Q Do you know who sleeved the ones that were
8 sleeved?

9 A No, I don't.

10 Q Do you know how the mailer in question got
11 the trays?

12 A I don't.

13 Q Somebody told you, pointed out to you that
14 these were trays of BMM?

15 A No, I know BMM. I know how BMM -- I've
16 testified BMM, machinable pieces, face, trayed, and it
17 was nicely stacked. You could see this was BMM. It's
18 the definition exactly of BMM.

19 Q Okay. But, a lot of mail flying around the
20 processing center. How did you stumble upon these
21 hundreds of trays?

22 A I don't know how. I wanted to visit and I
23 saw the trays.

24 Q Now, did you verify that all of the letters
25 were properly faced?

1 A The ones I looked, they were faced.

2 Q But, you didn't look at all?

3 A Of course not.

4 Q Were the letters stamped or what kind of
5 indicia did they exhibit?

6 A They had metered indicia.

7 Q Okay.

8 A Some of them had -- yes, metered indicia,
9 yes.

10 Q Okay. What type of mailer entered this
11 mail?

12 A I don't know. I didn't look who entered the
13 mail, but I'm not sure if it was a bank or some
14 mailer. I don't know who. I didn't check who sent
15 it.

16 Q Okay. And how did the trays get to the
17 plant? Were they picked up by the Postal Service at
18 the --

19 A I don't know.

20 Q -- customer's place of business?

21 A I don't know.

22 Q Now, when you saw hundreds of trays, did you
23 inquire whether this was a daily occurrence?

24 A Well, this is not the first time I saw BMM,
25 just for your information. I've visited other plants

1 and I've visited delivery units and I saw BMM. This
2 is not the first time I saw BMM.

3 Q That really wasn't my question. I know that
4 you've said that you've seen BMM before. My question
5 was, did you ask if this happened every day? Was this
6 one mailer or how many mailers was it?

7 A I don't know how many. I really don't know.
8 I can't answer that question.

9 Q Okay. And when you talked to the people at
10 the plant about this mail, did they say that, oh, yes,
11 we get hundreds of trays of BMM through every day?

12 A I don't exactly recall the exchange, but
13 that -- to me, it seemed to be a normal occurrence.
14 It's not something that came in that day.

15 Q But, you didn't ask? You didn't verify that
16 it comes in every day?

17 A I did not, because, to me, it was a normal
18 process, because whenever I go, a plant or delivery
19 unit, I see BMM mail.

20 Q Now, let's say this was a normal thing, that
21 this mailer, whatever he has, a hundred trays worth of
22 mail, brings it and pays for rate; right?

23 A Yes.

24 Q Okay. Do you recognize that there's certain
25 mail out there, which may look like BMM, smell like

1 BMM, walk like BMM, but is never going to convert to
2 pre-sorted mail?

3 A Give me an example.

4 Q Well, a government agency, for example, that
5 might have considerations other than just controlling
6 costs, and they might not want to be involved in all
7 it takes to work share mail and to liver up to the
8 requirements that the Postal Service has and to meet
9 the deadlines that the Postal Service has.

10 A It could. In a daily business, people mail
11 things in half tray, full tray, depending on the
12 business.

13 Q Right. And so this could have been going on
14 for years and years and may never convert to pre-
15 sorted mail, right?

16 A Yeah.

17 Q Okay. Thank you. Let's look at QBRM, which
18 I believe starts on about page 14. I guess what
19 you're saying is regardless of the volume of
20 handwritten reply letters and pre-bar coded super QBRM
21 letters, they'll both end up coming -- being processed
22 by a bar code sorter at the same point; is that right?
23 And that could be, according to you, the outgoing
24 primary, the incoming primary, the incoming secondary;
25 is that right?

1 A What I'm saying is that the only difference,
2 identifiable difference between the two are RBCS. One
3 will have to be bar coded and one has already the bar
4 codes on it. The difference is the bar code. But,
5 the outgoing primary is where they meet, yet.

6 Q Okay. Well, let's take a hypothetical
7 example here. Ten hand letters, which is shorthand
8 for handwritten; right?

9 A Uh-huh.

10 Q And 10 QBRM letters.

11 A Okay.

12 Q Can you, also, assume that after the first
13 bar code sort, seven of the 10 hand letters were
14 successfully automated, while nine of the 10 QBRM
15 letters were successfully sorted? I'm simply asking
16 you to assume that.

17 A Assume -- say it again one more time,
18 please.

19 Q We have 10 hand letters, 10 QBRM letters.

20 A Okay.

21 Q After the first bar code sort, seven of the
22 10 hand letters were successfully automated.

23 A Okay.

24 Q But nine of the 10 QBRM letters were
25 successfully sorted.

1 A Okay.

2 Q Now, for the seven or at least for seven
3 hand letters and seven QBRM letters, there are no
4 differences in processing after that sort; is that
5 right?

6 A That's right.

7 Q The ones that got automated?

8 A Yes.

9 Q Now, the remaining three hand and QBRM
10 letters, is it your testimony that the three hand
11 letters could be processed at that point on at the
12 same cost as the three QBRM letters, two of which can
13 be -- were successfully automated and one, which was -
14 -

15 A Discussing the hypothetical that you're
16 asking me between 10 and 10, you're talking about low
17 volumes, low mail and QBRM.

18 Q Let's make it a thousand, a thousand.

19 A If it's a low volume QBRM, they will all be
20 processed through the same system, which means they
21 would all go through the incoming -- all the way to
22 the incoming scandry, if it's small. It doesn't
23 matter whether it's QBRM or whether it's handwritten
24 mail.

25 Q Right.

1 A So, if it's a small volume, that's what is
2 going to happen. So, I don't know, instead of taking
3 a hypothetical, maybe we should just say the small
4 volume, how would the small volume QBRM and
5 handwritten reply pieces are processed. And I
6 discussed that in my testimony, page number 15.

7 Q And what I'm trying to get you to say is if
8 there are more QBRM letters that are successfully
9 automated than hand letters that can be successfully
10 automated, are you saying that the remaining hand
11 letters will end up being processed the same and cost
12 the same as the remaining QBRM letters?

13 A No. I'm saying if it's a small volume,
14 whether it's QBRM or whether it's handwritten reply
15 piece, they will all be processed all the way through
16 the system. I would be isolated until all the mail
17 for the delivery unit serving that recipient and
18 that's the incoming scandry operation. It doesn't
19 matter whether the piece was QBRM or hand-written flat
20 piece.

21 Q Well, let's --

22 A The only cost difference is RBCS and that's
23 what I stated in my testimony.

24 Q What happens if after the first bar code
25 sort, there's a difference between the hand letters --

1 the number of hand letters or the percent of hand
2 letters that were successfully automated and the
3 percent or number of QBRM letters that were
4 successfully automated?

5 A I think everything ends up to the acceptance
6 rates that is used in the model. According to the
7 premise of the model, the larger steps you go through,
8 it assumes that the acceptance rate is lower in
9 upstream and the acceptance rate is higher in the
10 downstream. So, the only difference between those two
11 pieces is RBCS.

12 Q Now, what I'm trying to focus on is after
13 the RBCS.

14 A What I said after the RBCS, if it's small
15 volume, they will both end up at the incoming scandry
16 all the way to the delivery units, whether it's small
17 volume, whether it's -- whether it's QBRM or whether
18 it's handwritten reply piece.

19 Q And if one could be automated as it goes
20 downstream and one can't be, are the costs going to be
21 the same?

22 A When you say 'automated,' I mean, I'm
23 assuming that once the RBCS function works properly
24 and the piece is bar coded, then from thereon, they
25 will all both be processed the same way.

1 Q So, you're assuming that every hand letter
2 that goes through the RBCS is going to be successfully
3 bar coded?

4 A No, I did not say that.

5 Q Well --

6 A If it goes RBCS, I mean, we have percentage.

7 Q Right.

8 A We have percents here.

9 Q You're going to have some that aren't going
10 to get a bar code, right?

11 A Same thing with QBRM. There will be some
12 QBRM piece could be rejected for any reason, because
13 the base can break down. They could be attached with
14 another piece.

15 Q Do you have any knowledge of the percent of
16 hand letters or the percent of QBRM that are
17 successfully -- pardon me, that are rejected by the
18 DBCS?

19 A I believe the model has a number. There's a
20 difference between the QBRM letter and the
21 handwritten, according to the model, according to the
22 cost model.

23 Q And which has the better acceptance rate?

24 A The way the model is structured, and I said
25 that the more steps you go through, the higher; the

1 lesser steps you go through -- the acceptance rate is
2 defined whether it's upstream, it's a single piece.
3 If it's downstream, it's mainly QBRM, which is higher.
4 In the single piece, it has lower acceptance rates.

5 Q Which, after the first bar code sort, which
6 one has been more successfully processed? Is it the
7 QBRM or the hand letters?

8 A The model assumes that QBRM has higher
9 acceptance rates.

10 Q Right. And the consequence of that is that
11 there will be different costs, as the pieces proceed
12 downstream; is that not correct?

13 A The only identifiable differences between
14 QBRM and handwritten reply mail piece is the RBCS.

15 Q I keep -- I hear you keep saying that.

16 A And I keep repeating it.

17 Q We've already went to the bar code sorter,
18 right? Is the bar code sorter before the RBCS?

19 A No, after, of course.

20 Q Okay. The bar code sorter is after the
21 RBCS.

22 A Right.

23 Q So whatever has happened in the RBCS has
24 happened. I think we agreed that after the mail
25 passes through the bar code sorter, more QBRM letters

1 are successfully passed through than hand letters.

2 You said that that's what the model says.

3 A The model indicates that the QBRM has higher
4 success rate than the handwritten reply pail.

5 Q Okay. What's the consequence of higher
6 success rate?

7 A And I'm saying this is an assumption that
8 the model used. If we do an actual study, if we do an
9 actual study, there could be some difference. But the
10 only identifiable differences, which you could see,
11 one needs RBCS and the other one doesn't need it.
12 That's something you can figure out. Otherwise, there
13 could be some QBRM pieces that could be rejected for
14 any reason. So, the only differences that I can see
15 is the RBCS cost.

16 Q Okay. Well, let's just say that -- do you
17 agree that it cost a lot more to process something
18 manually than it does to process it by automation?

19 A Of course, it -- manually costs -- has
20 higher costs. Manual processing is higher cost.

21 Q About 13 times as much, right?

22 A I don't have that figure.

23 Q Ballpark.

24 A I don't have a figure.

25 Q Okay. But, in any case, there's a

1 substantial difference. So the two letters, if one is
2 not accepted by the bar code sorter and the other one
3 is, there will be a difference in the processing cost
4 downstream at that point.

5 A Well, there are some single piece,
6 handwritten reply pieces, that could have a good high
7 success rate as QBRM and vice versa.

8 Q I'm just assuming -- I'm going by what your
9 model shows. If we have a hand letter that is not
10 successfully handled on the bar code sorter --

11 MS. MCKENZIE: Mr. Chairman, this has been
12 asked and answered. I think we're going over the same
13 ground again and again.

14 MR. HALL: You know what, I agree with you.

15 MS. MCKENZIE: And I object.

16 MR. HALL: The model shows what it shows.

17 CHAIRMAN OMAS: Please move forward, Mr.
18 Hall.

19 BY MR. HALL:

20 Q On page seven, line 16, you refer to the
21 downstream acceptance rates being higher. Do you see
22 that?

23 A Yes.

24 Q And would that mean that upstream acceptance
25 rates are lower?

1 A Moving from upstream to downstream, they
2 tend to increase. Of course, higher -- in upstream,
3 it's lower; all the way downstream, it's higher.

4 Q Right. And where is the RBCS operation,
5 upstream or downstream?

6 A Upstream.

7 MR. HALL: That's all we have. Thank you.

8 CHAIRMAN OMAS: Thank you, Mr. Hall. Mr.
9 Scanlon?

10 MR. SCANLON: Michael Scanlon from Pierce,
11 Meyers, on behalf of Pitney Bowes.

12 CROSS-EXAMINATION

13 BY MR. SCANLON:

14 Q Hello, Mr. Abdirahman.

15 A Good afternoon.

16 Q Could you, please, refer to the purpose and
17 scope portion of your rebuttal testimony on page one,
18 and specifically to lines four and five of page one --

19 A Yes.

20 Q -- where you state, 'first, my testimony
21 contests the metered-mail letters and the mail
22 benchmarks submitted by the Major Mailers Association
23 (MMA)' --

24 A Yes.

25 Q -- 'and Pitney Bowes, Inc. (PB)' --

1 A Yes.

2 Q -- do you see that?

3 A Yes.

4 Q Okay. Now, your written rebuttal testimony
5 does not provide any citation to the direct testimony
6 of witness Panzar or witness Buc on behalf of Pitney
7 Bowes, in which either advocates the use of the MML
8 benchmark; is that correct?

9 A Yes.

10 Q Okay. And I'm not aware of any portion of
11 witness Panzar or witness Buc's testimony that
12 advocates the use of MML as a benchmark. Can you,
13 please, tell me what you are referring to?

14 A If you could just wait, let me look at this
15 library reference. I thought I saw something where he
16 uses MML, but let me double check.

17 (Pause.)

18 In his library reference, where it says,
19 'thought experiment for bush and cost for ratios,' he
20 has first-class metered letters. I can show you.

21 Q Okay. And that library reference, you
22 understand that to be advocating MML, as a benchmark?

23 A Not advocating, but using it in the model,
24 let me put it that way.

25 Q Okay.

1 A That's what I meant.

2 Q Okay. So there is nothing in the testimony,
3 however?

4 A No.

5 Q Okay. Let's move then to talk about
6 delivery unit costs.

7 A Okay.

8 Q And if you would, please return to the
9 purpose and scope section of your rebuttal testimony
10 on page one.

11 A Okay.

12 Q And please refer specifically to lines 10
13 through 15, where you state, 'second, my testimony
14 rebuts the use of unreliable delivery unit cost
15 estimates by MMA, PB, and the American Postal Workers
16 Union (AFL-CIO). The Postal Service believes there
17 are no reliable data, which indicate that delivery
18 unit costs differ by pre-sort rate category.
19 Therefore, any cost analysis, which rely upon the use
20 of these delivery cost differences, are immediate
21 suspect.' Do you see that?

22 A Yes.

23 MR. SCANLON: Okay. And now, let's take a
24 look at your model. I'm going to -- without
25 objection, may I approach the witness?

1 (Witness is provided a document.)

2 MR. SCANLON: And what I've provided are
3 copies of pages five, seven, nine, and 11 of the
4 library reference that you sponsored in this case,
5 USPS-LR-L-48.

6 (The document referred to was
7 marked for identification as
8 USPS-LR-L-48.)

9 THE WITNESS: That's correct.

10 BY MR. SCANLON:

11 Q Okay. And if you will please refer to page
12 five, the first page. Do you have that?

13 A Yes.

14 Q Okay. And this model is the mail flow model
15 for first-class automation mixed to ADC pre-sorted
16 letters, isn't that correct?

17 A That's correct.

18 Q Okay. And if you refer, please, to the
19 block at the bottom, the far most bottom right-hand
20 corner of the page, the one that says, 'inc sec man;'
21 do you see that? It's the box all the way down the
22 bottom in the right corner.

23 A The last one. Okay, the last one.

24 Q Yes.

25 A Yes, I see that.

1 Q Okay. And 'inc sec man,' that's short for
2 incoming secondary manual; isn't that correct?

3 A Yes.

4 Q Okay. And the left side of the box shows
5 1,159 pieces going in and 1,159 pieces coming out as
6 finalized, isn't that correct?

7 A That's correct.

8 Q Okay. Now, let's talk, if you can, a little
9 bit in general about what these piece -- where these
10 pieces came from, okay?

11 A Okay.

12 Q Would you agree that these pieces are pieces
13 that 'fell out' of the automation stream somewhere?

14 A Yes.

15 Q Okay. In other words, then, these are
16 pieces that for some reason couldn't be processed on
17 the machines?

18 A Yes.

19 Q Okay. And would you agree that it is the
20 case that if a piece falls off the automation stream,
21 it stays off the automation stream?

22 A Yes.

23 Q Okay. And, in fact, if you refer to page
24 six of your testimony --

25 A Okay.

1 Q -- lines 12 through 14, where you state,
2 'machinable mail pieces would be dispatched to
3 delivery units as part of the delivery point sequence
4 (DPS) mail, while the non-machinable mail pieces would
5 be dispatched to the residual (non-DPS) mail that
6 required manual processing.' Do you see that?

7 A Yes.

8 Q Okay. So then referring back to page five
9 of your library reference, we have 1,159 pieces coming
10 out of the incoming manual secondary; is that correct?

11 A That's correct.

12 Q Okay. And at that point, these pieces must
13 be manually sorted to a carrier route; isn't that
14 right?

15 A That's correct.

16 Q Okay. And if they are sorted only as a
17 carrier route, wouldn't you agree that they generally
18 must then be sorted again manually to walk sequence
19 before they can be delivered by the carriers?

20 A That's correct. The manual non-DBS pieces
21 or non-machinable pieces, what will happen is that
22 they will go to the delivery units, to the
23 distribution clerk, where the distributing clerk sorts
24 it in a hot case and the carrier comes in and takes it
25 and cases it again.

1 Q Okay.

2 A And he takes it to the street.

3 Q And that's exactly where I'm headed with
4 this.

5 A Yes.

6 Q And then just to be clear, it's the
7 carriers, then, at the delivery unit, who perform the
8 sorting to walk sequence manually?

9 A That's correct.

10 Q Okay. Thank you, very much. And now look
11 at the -- let's take a look at the boxes directly
12 above the box we were just looking at.

13 A Yes.

14 Q On the first box, the one to the left, it
15 says 'inc sec auto.' Do you see that?

16 A Yes.

17 Q And, again, that's short for incoming
18 secondary automation; isn't that correct?

19 A That's correct.

20 Q Okay. And now, there are three boxes to the
21 right of that box. Do you see those?

22 A Yes.

23 Q Okay. And your model shows that 7,302
24 pieces go to the box labeled 'inc sec 2 pass auto.'

25 A That's correct.

1 Q Do you see that? Okay. And 'inc sec 2 pass
2 auto' is short for incoming secondary two pass
3 automation, right?

4 A Yes.

5 Q Okay. And the mail flow model here also
6 shows at the top box of the three, that 1,945 pieces
7 go to the box labeled 'incoming secondary one pass
8 auto.'

9 A That's correct.

10 Q Okay. And just to finish this off, then,
11 below the box labeled 'incoming secondary one pass
12 auto,' there's one labeled 'incoming secondary three
13 pass auto;' is that correct?

14 A That's correct.

15 Q Okay. And so then on the far right side of
16 this sheet, again in the bottom right corner, we have
17 three numbers. The first is 834 finalized.

18 A Uh-huh.

19 Q The second is 982.

20 A Right.

21 Q And the final number there is 7,025, each
22 saying 'finalized;' isn't that right?

23 A That's correct.

24 Q Okay. So, just to be clear, then, manual
25 pieces come out of your model still needed to be

1 manually sorted to carrier route walk sequence;
2 correct?

3 A Yes.

4 Q Okay. While the pieces that stay in the
5 automation stream come out of the same model already
6 sorted to carrier walk sequence, isn't that correct?

7 A Right, right.

8 Q Okay. Now, let's turn to page seven, if you
9 would, please, of the library reference.

10 A Seven?

11 Q Yes. It's the next page in the handout.

12 A Yes.

13 Q Okay. And this is the mail flow model for
14 first-class automation AADC pres-sort letters, is that
15 correct?

16 A Yes.

17 Q Okay. And then if we turn to the next page,
18 which is page nine, this is the mail flow model for
19 first-class automation three-digit pre-sorted letters;
20 is that correct?

21 A That's correct.

22 Q Okay. And page 11, the final page, shows
23 the mail flow models for first-class automation five-
24 digit pre-sorted letters; is that correct?

25 A That's correct.

1 Q Okay. And now in each of these models, you
2 flow 10,000 pieces in and 10,000 pieces out; correct?

3 A Yes.

4 Q Okay. And that's reflected at the top of
5 each sheet, where it says 'pieces in and pieces out;'
6 correct?

7 A Yes.

8 Q Okay. So, let's refer back, then, again to
9 page five of the library reference, if you would?

10 A Okay.

11 Q And, again, to that final box in the lower
12 right-hand corner. And this is, again, is the mail
13 flow sheet for MAADC mail.

14 A Yes.

15 Q And I would like to confirm that your model,
16 again, shows that 1,159 pieces for this mail flow
17 model are not DPS and, therefore, will need to be
18 manually sorted to carrier route?

19 A Right. That's mail that's rejected
20 somewhere in the processing.

21 Q Okay.

22 A Yes.

23 Q And then if we turn the page and we look in
24 the same place on the mail flow model for AADC mail,
25 page seven, we see that that shows that 887 pieces in

1 this mail flow model are not DPS and, therefore, will
2 need to be manually sorted to carrier route. Do you
3 see that?

4 A Uh-huh.

5 Q Okay. And if we turn the page again, to
6 page nine of your library reference for three-digit
7 mail, shows that 765 pieces are not DPS and,
8 therefore, will be manually sorted to carrier route.
9 Do you see that?

10 A I see that.

11 Q Okay. And, finally, if we look at the five-
12 digit model on page 11 of your library reference, that
13 shows that there are 439 pieces that are not DPS and
14 need to be manually sorted to carrier route.

15 A Right.

16 Q Okay. So, then, as we cascade down to more
17 finely pre-sorted levels, the number of pieces that
18 will need to be manually sorted to carrier route --
19 you know, we started MAADC will 1,159; AADC, 887;
20 three digit, 765; and five digit, 439.

21 A Yes.

22 Q Okay. And so from your model, then, there
23 are more pre -- the more pre-sorted the mail is, for
24 example, five-digit mail, the fewer pieces that fail
25 to be DPS and, therefore, the fewer pieces that need

1 to be manually sorted in delivery unit; is that
2 correct?

3 A Yes.

4 Q Okay. And conversely, the less pre-sorted
5 the mail piece is, for example, if it's a mixed AADC
6 piece, if for purposes of the mail flow models, the
7 more pieces that will fail to be DPS'd and, therefore,
8 the more pieces that will need to be manually sorted
9 in the delivery unit; is that also correct?

10 A Right.

11 Q Okay. Now, if you would, if you would refer
12 back to your rebuttal testimony, if you would turn to
13 page seven, please?

14 A Okay. I have it.

15 Q Okay. And I direct your attention, please,
16 to liens 21 through 23.

17 A Okay.

18 Q Where you state, and here I'm quoting, well,
19 the letter cost models are adequate for estimating
20 mail processing unit cost by rate category. They are
21 not likely to be an effective tool for estimating DPS
22 percentages by rate category. Do you see that?

23 A Right.

24 Q Okay. And now, again, I want to go back to
25 the model for a moment. And your model has inputs and

1 outputs, is that correct?

2 A Right.

3 Q Okay. Can you, please, identify what some
4 of the inputs of the model are?

5 A DBS percentage is not one of them, just to
6 make that clear.

7 Q Okay. So, that's not an input?

8 A That's not an input in the model. I have
9 acceptance rates, which drives -- is the basis of the
10 discussions we had today. That's what drives the DPS
11 percentage. I have wage rates. I have productivity.
12 I have mail elasticity study. I have density table.
13 I have miscellaneous factors. That's what I so far
14 can recall. And plus CRA inputs.

15 Q Okay. And those are all the inputs?

16 A Those are -- yes.

17 Q Or those are the inputs you can think of
18 now?

19 A Yes.

20 Q And then with respect to outputs, one of the
21 outputs is the unit cost by rate category; is that
22 correct?

23 A Yes.

24 Q Okay. And aren't the cost by rate category
25 outputs dependent on how the mail flow models work?

1 A Yes.

2 Q Okay.

3 A The finer it is, the cheaper.

4 Q Okay.

5 A That's the process.

6 Q And then as we've discussed previously,
7 another one of the outputs is the number of pieces
8 that are DPS'd and the number of pieces that still
9 require manual sorting to carry route sequence; is
10 that correct?

11 A Say it again one more time.

12 Q One of the outputs, the mail processing unit
13 cost, and another output are the number of pieces that
14 are successfully DPS'd and the number of pieces that
15 must be manually sorted?

16 A In previous cases, we used DPS percentages.
17 I've handed those to the delivery witness, where he
18 used to come up with the rate category delivery cost,
19 unit cost. In this case, we have -- are basically
20 evaluating the case. We have looked at it very
21 carefully and decided that the only difference is the
22 machinable versus non-machinable. That's the only
23 thing that we could see.

24 Q Okay.

25 A So, we did not produce delivery -- DBS

1 percentage in this docket.

2 Q I understand that and we'll get to that.
3 What I want to focus on now are simply the inputs to
4 the model, then the outputs to the model. And I think
5 we've established that one of the outputs is the cost
6 by rate category, right, and that that's dependent on
7 the mail flow?

8 A Right.

9 Q Another output from the model that we went
10 through is that we looked at the cascading levels of
11 pres-sort are the number of pieces that are
12 successfully DPS'd and the number of pieces that, as
13 they come through the mail flow, will need to be
14 manually sorted at the delivery unit.

15 A Yes. You could calculate DPS percentages
16 from the model --

17 Q Okay.

18 A -- if that's what you're asking, yes.

19 Q Okay. But, your testimony, then, is that
20 one of the outputs of the model is reliable, but the
21 other output from the same model is not reliable, even
22 though the one you claim is unreliable, in this case,
23 the DPC percentages, is produced by the same set of
24 processes, the same mail flows, and the same inputs?

25 A Right.

1 Q Okay.

2 A The reason -- let me just clarify. The
3 model is designed to de-average the CRA unit cost.
4 That's what the model is basically designed. It was
5 not designed to produce DBS percentages.

6 Q Okay.

7 A So --

8 Q I think my question is a little more
9 specific. How could it be the case that the one model
10 with the same set of inputs and the same processes and
11 the same mail flows is reliable for one purpose, but
12 not reliable for another.

13 A Because the model -- as I said again, the
14 model is designed to produce a breakdown of the CRA.
15 We have CRA cost at the pre-sort level and we need to
16 break down to farther, mixed AADC, DC, five-digit.
17 The model was not designed to produce DPS percentages.
18 And the acceptance rates we use is aggregate number.
19 We don't have acceptance rates for three digit or five
20 digit or three digit.

21 Q I understand that. But, the mail flow
22 models that we just went through, there is a clear
23 directional -- in fact, we have numbers that --

24 A Right.

25 Q -- 10,000 pieces in, 10,000 pieces out. We

1 can see how many pieces are successfully DPS'd in the
2 same mail flow model and how many pieces at the end of
3 the day will need to be manually sorted.

4 A Right.

5 Q Okay. Let's turn, then, to page seven of
6 your rebuttal testimony, please?

7 A Okay.

8 Q And here, if you refer to specifically to
9 lines five through seven. And you state here, 'in
10 reality, mail pieces that have been successfully
11 processed (i.e., accepted), 'upstream' automation
12 operation can be successfully processed in a
13 'downstream' operation, as well.' Do you see that?

14 A Yes.

15 Q Okay. So, is it your testimony that once
16 pieces have been accepted the first time, the
17 downstream acceptance rates are 100 percent?

18 A No, we don't have 100 percent acceptance
19 rates. Even the numbers are used, the highest one
20 goes -- which the income secondary is 98.56. So, it
21 would definitely be higher, but I will not say 100
22 percent. It could be other reasons. It could be
23 rejected any time in a mail stream.

24 Q Okay. And when we talk about this
25 statement, that once it's successfully processed

1 upstream, that it will also be successfully processed
2 downstream, is that the way the mail flow models
3 worked?

4 A No, that's the reality. The mail flow
5 model, the premise for the mail flow model is that in
6 upstream, in the upstream model, the DPS percentages
7 tend to be lower. If you go downstream, the DPS
8 percentages tend to be higher. That's the way the
9 model works.

10 Q Okay. But, the mail flow models that we
11 just went through seem to show that the more fine --
12 again, the more finely pre-sorted the piece is --

13 A Go up.

14 Q Right. So, then, I mean, is the testimony,
15 then, that the acceptance rates you used in the model
16 are incorrect?

17 A No. No, what I'm saying that I'm using one
18 acceptance rate for single piece and for bulk mail. I
19 don't have a separate acceptance rates for single
20 piece or for -- it's by operation.

21 Q Okay. I understand that. But, I think what
22 I'm really asking is, as part of your library
23 reference that you sponsored with your direct
24 testimony, there are a number of mail flows, the
25 breakout, the way the mail flows through in the model

1 based on pre-sort level.

2 A That's correct.

3 Q And those mail flow models showed different
4 DPS percentages based on the pre-sort level.

5 A Right.

6 Q And so the question is, is it your
7 testimony, the acceptance rates used in the model are
8 incorrect?

9 A I believe the DPS percentages produced by
10 those acceptance rates are incorrect, because the
11 operation's witness testimony, which Mark McCrery,
12 which we rely on to get information, he tells us that
13 the only difference, identifiable difference is
14 between machinable and non-machinable piece when it
15 comes delivery. And by the way, I'm not a delivery
16 unit witness. Someone else produced that.

17 Q Okay. Let's shift gears a little bit and
18 talk about the portions of your rebuttal testimony
19 that address the cost pool classifications.

20 A Okay.

21 Q And here, again, if you return to the
22 purpose and scope section --

23 A Okay.

24 Q -- if you look specifically at line 17, you
25 state --

1 A Okay, line seven.

2 Q Line 17, on page one, you state, 'the Postal
3 Service believes that its cost pool classifications in
4 this docket are consistent with past 'Commission
5 approved' cost pool classifications.' Do you see
6 that?

7 A Right.

8 Q Okay. And does the Commission always
9 approve what the Postal Service recommends in a rate
10 case?

11 A Not always, but they sometime agree with us,
12 sometimes they disagree with us.

13 Q Okay. Sometimes, not always?

14 A Right.

15 Q Okay. And more specifically, does the
16 Commission always accept the Postal Service's cost
17 pool classifications?

18 A No, they don't. But, in the last case,
19 R2000-1, I would say we're not that much apart.

20 Q Right. Well, actually, looking to R2000-1
21 specifically, didn't the Rate Commission reclassify
22 some of the Postal Service cost pool classifications?
23 And if you look specifically in that case, at the
24 opinion recommended decision, it stated, and here I'm
25 quoting from paragraph 5088 of that opinion, 'because

1 of this, some pools the Postal Service considered non-
2 work sharing related (fixed) are reclassified as
3 working sharing related fixed.'

4 A Yes.

5 Q Okay. And doesn't the Postal Service,
6 itself, in fact, sometimes change the cost pool
7 classifications?

8 A That's correct.

9 Q And, in fact, the Postal Service changed a
10 number of cost pool classifications in this case?

11 A Right.

12 Q Okay. And so, it's not your testimony that
13 the Commission should never come to an outcome, which
14 is inconsistent with a past decision, if faced with
15 new information?

16 A I think the only reason we changed the
17 classification in this case is because we're combining
18 Auto and Non-Auto. And some of the bundle sorting
19 cost pools, we shifted --

20 Q Right.

21 A -- to be proportional.

22 Q So, you looked at it differently and you
23 decided to change the classification?

24 A Right.

25 Q Okay. If you would turn to page 10 of your

1 rebuttal testimony, please?

2 A Uh-huh.

3 Q And if you would direct your attention,
4 please, to line seven and eight --

5 A Seven and eight, okay.

6 Q -- where you state, the witness Buc,
7 'arbitrarily classifies the majority of cost pools as
8 modeled/proportional without presenting any supporting
9 evidence.'

10 A Right.

11 Q Do you see that?

12 A Yes.

13 Q Okay. And you read witness Buc's testimony
14 in its entirety, is that correct?

15 A I did.

16 Q Okay. So, you know, then, there were over
17 15 pages of his testimony, pages 14 through 30, which
18 discuss why he classifies cost pools -- why he
19 classifies the cost pools that he does classify as
20 proportion that way?

21 A Yes, yes, I read and he greatly discusses
22 his thought experiment of how he came to the
23 conclusion of classifying those cost pools.

24 Q Okay. And that's what I want to get to,
25 because your rebuttal testimony only speaks to witness

1 Buc's though experiment. But, in fact, there is quite
2 a bit more in those 15 pages. And so, I direct your
3 attention, if you have a copy, to page 30 of witness
4 Buc's testimony, PBT2.

5 A Okay. Yes, I have it. What page?

6 Q Page 30, please.

7 A Yes, I have it.

8 Q And again, look at lines 1 through 6.

9 A Uh-huh.

10 Q There Witness Buc explains his decision
11 rule, and what he says, and here I'm quoting, is, "I
12 did not classify all cost pools as proportional but
13 rather classified a cost pool as proportional only if
14 (1) the Postal Service classified the pool as
15 proportional, (2) the pool is anomalous, (3)
16 operational and mail flow analysis shows the pool to
17 be proportional."

18 The next sentence says, "I classified a pool
19 as 'fixed' if (1) operational analysis did not
20 absolutely show it to be fixed or (2) available data
21 were not sufficient to complete an operational
22 analysis." Do you see that?

23 A Yes. That's his testimony, yes.

24 Q Okay. And you would agree that that sets
25 forth his decision rule for classifying a pool as

1 proportional, is that correct?

2 A One thing I know that he agrees with me
3 mostly are most of the proportional cost pools where
4 there's no argument in that regard. But the fixed
5 cost pools is shifting is what the issue is, and I see
6 his testimony, yes.

7 Q Okay. So there he's setting forth the basis
8 in terms of if he classified a pool as fixed or
9 proportional, that's why he did it. Now does that
10 seem arbitrary to you, the test that he's set out
11 there?

12 A I think he relies on three things, and if
13 you want, I mean, we can talk about it. That I can
14 recall, he does rely on three things, one, the thought
15 experiment. First he says that the single piece
16 letter cost, the fixed cost of single piece letters,
17 he is comparing the fixed cost of single piece
18 letters.

19 Q Well, if I could interrupt you.

20 A Okay.

21 Q I'm not asking you to characterize or
22 recharacterize Witness Buc's testimony. All I'm
23 trying to get to is the statement you make is that he
24 arbitrarily classifies them, and then you talk about
25 the thought experiment. In fact, there's quite a bit

1 more to Witness Buc's testimony. I mean, there is a
2 thought experiment that you recall, correct?

3 A Right.

4 Q Okay. And there's also an analysis of the
5 implications of the Postal Service's own attribution /
6 distribution theory, isn't that correct?

7 A Yes. He cites Bozzo, Witness Bozzo, and
8 Witness Van-Ty-Smith.

9 Q Right. And then there's also a discussion
10 of anomalous cost pools, right? And that, for
11 example, is where you find a flat and a letter sorting
12 operation?

13 A That's what he calls anomalous, yes.

14 Q Okay. And finally there's a fourth area
15 where he performs an operational analysis on a variety
16 of cost pools, correct?

17 A Yes. He cites Witness McCrery, yes.

18 Q Okay. And so what I'm really getting at is
19 the statement in your rebuttal testimony where you say
20 he "arbitrarily classifies." Do you think that's an
21 accurate characterization of what he did?

22 A I think I was not convinced of his thought
23 experiment. That's why I stated that.

24 Q Okay.

25 A He does list why he thinks they should be

1 shifted.

2 Q Okay. And I understand that you don't agree
3 with his thought experiment.

4 A Right.

5 Q But you agree for purposes of your testimony
6 today that the thought experiment was only one of the
7 four things that he did in analyzing the cost pools,
8 is that correct, the four things we just went through?

9 A (No response.)

10 Q And again, we just talked about it. When
11 you read through those 16 pages of testimony, those 15
12 pages, there's a thought experiment, there's an
13 analysis of the implications of the Postal Service
14 attribution/distribution theory, there's his
15 discussion of anomalous cost pools, and then there's
16 his operational analyses, right? All four of those
17 things are in there? It's not simply the thought
18 experiment?

19 A I know.

20 Q Okay.

21 A Yes.

22 Q That's all I was trying to establish.

23 A Yes.

24 Q And now I want to turn away from Witness
25 Buc's decision rule to your decision rule in this

1 case.

2 A Okay.

3 Q And from your direct testimony, your rule as
4 I recollect it was that if you modeled the costs, they
5 were classified as proportional, whereas if you did
6 not model the costs, they were classified as fixed.
7 Is that accurate?

8 A Yes. Generally, yes.

9 Q Okay. And in fact, in response to an
10 interrogatory from Major Mailers Association, T-22-36,
11 Part A, I think you admitted that in fact, some cost
12 pools that you classified as fixed may in fact be
13 proportional, is that correct, that you just simply
14 didn't study them?

15 A Yes.

16 Q Okay. And now I'd ask you to turn to page
17 11 of your testimony.

18 A Uh-huh. I have it.

19 Q And there you state, and I'm quoting, "The
20 Commission analysis in Docket R-2000-1 where cost pool
21 classifications were debated at length supports the
22 Postal Service's approach rather than the flawed
23 approaches advocated by Witnesses Buc and Bentley."
24 Do you see that?

25 A Yes.

1 Q Okay. Did Witness Buc testify in R-2000-1
2 on cost pool classifications?

3 A R-2000?

4 Q Yes.

5 A No.

6 Q Okay. And you would agree that Pitney Bowes
7 did not submit any testimony on cost pool
8 classifications in that case either, is that correct?

9 A No.

10 Q Okay. Was there any testimony presented in
11 R-2000-1 on cost pool classifications that involved
12 the thought experiment?

13 A You're talking about R-2000, right, dash 1?

14 Q Right.

15 A I was not even a witness.

16 Q Are you aware of any analysis in that case
17 that looked at the implications of the Postal Service
18 attribution/distribution theories relative to cost
19 pool classifications?

20 A In R-2000-1?

21 Q Right.

22 A No.

23 Q Okay. And are you aware in R-2000-1 of any
24 analysis that was an operational analysis or an
25 analysis of anomalous cost pools in that case?

1 A Really, no, I don't know.

2 Q Okay. Now again I'd like to shift to a
3 different topic here, to BMM.

4 A Okay.

5 Q This is an issue that Mr. Hall touched upon
6 briefly.

7 A Okay.

8 Q And if you'd turn to page 6 of your
9 testimony, the rebuttal testimony?

10 A Yes.

11 Q And specifically if you'd look at lines 2
12 through 4, please.

13 A Yes.

14 Q And there you state, and I'm quoting, "Even
15 if the Commission does not adopt the delinking
16 methodology, these unsubstantiated views should not
17 warrant departure from Commission findings in past
18 cases supporting BMM benchmark." Do you see that?

19 A Yes.

20 Q Okay. Is it your testimony that the
21 Commission should accept the BMM benchmark even if it
22 rejects the Postal Service's delinking proposal?

23 A No. My testimony is that we're presenting a
24 delinking proposal, and that's what is the proposal,
25 and I'm a member of the Postal Service. But I'm

1 saying that if the Commission rejects delinking, BMM
2 has already been litigated, discussed, and agreed by
3 the Commission in R-2000-1 as the proper benchmark.

4 Q Okay. So you're supporting the Postal
5 Service's proposal to delink in this case?

6 A Right.

7 Q But if the Commission rejects delinking, you
8 would support reverting back to a BMM benchmark?

9 A Because there is no other alternative
10 benchmark that was litigated that I am aware of.

11 Q Okay. And have you read Witness Taufique's
12 rebuttal testimony, RT-18 in this case?

13 A Some of it. I don't recall exactly.

14 Q Okay. If you'll refer to pages 6 through 8
15 of his testimony?

16 A Okay. I don't have it with me.

17 Q Well, I can characterize it for you.

18 A Okay.

19 Q In that section of his testimony, he
20 identifies some theoretical and practical limitations
21 of the BMM benchmark. Does that sound familiar?

22 A I'm familiar with his original testimony.

23 Q Okay.

24 A But this could be supporting what he said
25 before, so maybe, yes.

1 Q Okay. Well, one way to read Witness
2 Taufique's testimony, and I understand that he'll be a
3 witness later in the proceeding, one way to read his
4 rebuttal testimony in this case is it casts some doubt
5 on the choice of the BMM benchmark even if delinking
6 is not accepted. If that is his testimony, do you
7 agree with it?

8 A He's the person proposing the delinking.
9 That's my understanding. And the benchmark has
10 shifted from me to Altaf Taufique, Witness Taufique.

11 Q And that's why I'm asking. In fact, he's
12 the pricing witness, isn't that correct?

13 A He's the pricing witness.

14 Q Okay. So if delinking is rejected, and in
15 his rebuttal testimony, he's identifying practical and
16 theoretical implications, or even if delinking is not
17 rejected, he's suggesting BMM isn't necessarily the
18 best benchmark. So are you deferring to his testimony
19 on that point?

20 A I think by then, the Commission will issue a
21 recommendation, and I guess we have to leave it with
22 whatever the Commission recommends. But the BMM has
23 already been litigated. That's all I was saying.
24 That was my whole point.

25 MR. SCANLON: Okay. Thank you. Nothing

1 further, Mr. Chairman.

2 CHAIRMAN OMAS: Thank you, Mr. Scanlon. Is
3 there anyone else who wishes to cross-examine this
4 witness?

5 (No response.)

6 CHAIRMAN OMAS: There being none, Mr.
7 Abdirahman, I do have a question for you.

8 THE WITNESS: Yes.

9 CHAIRMAN OMAS: In your testimony, you said
10 that it is not appropriate to use DPS percentages to
11 derive from your cost model to estimate delivery cost
12 differences between presort levels. Your criticism is
13 based on doubts you have about the use of aggregate
14 acceptance rates. Your conclusion seems to be that
15 the model results in differences in DPS percentages
16 where there are actually none. Is that right?

17 THE WITNESS: That's correct.

18 CHAIRMAN OMAS: If your analysis is correct,
19 wouldn't the use of aggregate acceptance rates cause
20 some distortion in the model mail processing cost
21 differences between presort levels, and if so, would
22 this tend to overstate the cost differences or
23 understate them, and why?

24 THE WITNESS: Mr. Chairman, I agree with you
25 that what we use to derive the DPS percentage is the

1 acceptance rates, and we thought about this before we
2 made this proposal even before delinking, even if the
3 delinking was not proposed.

4 We wanted to set the record straight. Since
5 we did not have a DPS percentage by rate category, we
6 had the option of coming back with the DPS percentage
7 like we did before and say some criticism from the
8 mailers saying that they were not sufficient DPS
9 percentage.

10 But then when we conferred and discussed
11 this issue with the delivery witness, with the
12 operations people, they have advised us the only
13 identifiable difference is the machineable and
14 nonmachineable. That's the only thing that makes a
15 difference is DPS pieces will go straight to the
16 carrier; non-DPS pieces will go to be processed by
17 clerks and then back to the carrier.

18 So one of our missions, actually my mission,
19 is to do a new study on acceptance rates, update
20 acceptance rates, and have good acceptance rates in
21 order to get a good mail processing unit cost. But we
22 are not throwing any suspicion on the mail processing
23 costs. Where we are throwing suspicion is the DPS
24 percentages produced by our model.

25 CHAIRMAN OMAS: Okay. Thank you. Is there

1 anyone else who wishes to cross-examine? Ms. Wood?

2 MS. WOOD: Just very briefly, Mr. Chairman.

3 CHAIRMAN OMAS: Okay.

4 FURTHER CROSS-EXAMINATION

5 BY MS. WOOD:

6 Q Hi again, Mr. Abdirahman. You had a
7 discussion earlier with Mr. Hall about the 8.11 cents
8 that is the BMM proxy cost.

9 A Yes.

10 Q In each of the cost pools that are
11 determining this BMM proxy cost, there is a mixture of
12 BMM mail and other metered mail, correct?

13 A That's correct.

14 Q So the difference between the metered mail
15 and the BMM is not just a matter of removing the cost
16 pools that deal with the BMM costs, correct?

17 A That's correct.

18 Q Okay. And in calculating the cost
19 avoidance, the model costs of BMM are never used, are
20 they?

21 A They're never used for anything.

22 Q Only the CRA costs are used, correct?

23 A Only the CRA cost is used, that's correct.

24 Q So any problems with the proxy
25 overestimating the true BMM costs already benefit the

1 presort mailers in that it would tend to overestimate
2 the cost avoidances, isn't that correct?

3 A That's correct.

4 MS. WOOD: Okay. Thank you. That's all I
5 have.

6 CHAIRMAN OMAS: Thank you, Ms. Wood. Is
7 there anyone else?

8 (No response.)

9 CHAIRMAN OMAS: Ms. McKenzie, would you like
10 some time with your witness?

11 MS. MCKENZIE: Yes, Mr. Chairman, 10
12 minutes, please.

13 CHAIRMAN OMAS: Very good. We'll take a 10-
14 minute break, and we'll come back at 5:40.

15 (Whereupon, a short recess was taken.)

16 CHAIRMAN OMAS: Ms. McKenzie?

17 MS. MCKENZIE: The Postal Service has no
18 redirect.

19 CHAIRMAN OMAS: Thank you. Mr. Abdirahman,
20 that completes your testimony here today. We
21 appreciate your contribution to the record and for
22 your testimony, and you're now excused. Thank you.

23 (Witness excused.)

24 CHAIRMAN OMAS: Mr. Hall.

25 (Pause.)

1 CHAIRMAN OMAS: Can we have water, please?

2 Mr. Straus, would you introduce your witness
3 so that I may swear him in?

4 MR. STRAUS: Yes. American Business Media
5 calls to the stand Mr. Lou Bradfield.

6 CHAIRMAN OMAS: Raise your right hand.

7 Whereupon,

8 LOU BRADFELD

9 having been duly sworn, was called as a
10 witness and was examined and testified as follows:

11 CHAIRMAN OMAS: Please be seated.

12 DIRECT EXAMINATION

13 BY MR. STRAUS:

14 Q Mr. Bradfield, for the record, would you
15 state your name and your employer?

16 A My name is Louis Bradfield. I work for VNU
17 Business Publications.

18 Q Now, Mr. Bradfield, did you submit testimony
19 in this docket, American Business Media, RT-1?

20 A Yes, rebuttal testimony.

21 Q Yes. And it was my fault that it didn't say
22 RT-1. If your testimony were to be given today, would
23 it be the same?

24 A Yes, it would be.

25 MR. STRAUS: Mr. Chairman, I will hand two

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1 copies to the reporter of Mr. Bradfield's testimony,
2 RT-1, and his rebuttal exhibits, LB-1 through LB-5.

3 CHAIRMAN OMAS: Is there any objection?

4 (No response.)

5 CHAIRMAN OMAS: Hearing none, I will direct
6 counsel to provide the reporter with two copies of the
7 corrected testimony of Lou Bradfield. That testimony
8 is received into evidence and is to be transcribed
9 into the record.

10 (The document referred to,
11 previously identified as
12 Exhibit No. ABM-RT-1, was
13 received in evidence.)

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ABM-RT-1

Postal Rate Commission
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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

REBUTTAL TESTIMONY OF LOU BRADFELD
ON BEHALF OF AMERICAN BUSINESS MEDIA
(November 20, 2006)

1 My name is Lou Bradfield, and I am submitting this testimony on behalf of
2 American Business Media. The general purpose of my testimony is to respond to the
3 testimony and proposals submitted by Time Warner and jointly by Magazine Publishers
4 of America and the Association of Nonprofit Mailers. In doing so, I will support the
5 Commission's consistent concern for those mailers "left behind" by worksharing
6 discounts, when, through no fault of their own, they are unable to take advantage of
7 opportunities that are available, in many case, only to bigger mailers. I will rely to a
8 large extent on my company's experiences with co-mailing and co-palletizing. I
9 recognize that in the Time Warner, et al., complaint case, the Commission expressed a
10 ~~desire for a Periodicals rate design that more closely tracks cost incurrence and~~
11 encourages those mailers that can to move from sacks to pallets. My company and, as
12 far as I know, most American Business Media member companies are making that
13 move, on the basis of the incentives built into the present rates. We do not oppose
14 additional changes.

15 Each of the three rate proposals here moves in the direction requested by the
16 Commission by increasing those incentives. They differ as to the level of incentives (or

1 rewards) and the amount of rate protection for those left out. At this point, neither I nor
2 American Business Media endorses any of the proposals. We do, however, urge the
3 Commission to assure adequate protection from destructive rate increases for the many
4 publications that cannot now and will not in the spring when the new rates become
5 effective be able to co-mail or co-palletize. Clearly, the Time Warner and, to a lesser
6 extent, the MPA/ANM proposals require changes in order to meet this goal.

7 **Autobiographical Sketch**

8 My present position is Corporate Distribution Director for VNU Business Media,
9 where I have been employed for four years. VNU publishes forty-five titles, among
10 them some that are relatively well known, such as The Hollywood Reporter, Billboard,
11 and AdWeek, and some that are highly specialized and well known only in their field,
12 such as Progressive Grocer, Sales & Marketing Management and Kirkus Reviews
13 (which gained some notoriety in the Time Warner complaint case). My present
14 responsibilities include managing the mailing and distribution of all of VNU's titles.

15 Prior to joining VNU, I held similar positions over the past twenty-two years at
16 Cahners Publishing (now Reed Elsevier), Mack Printing (now Cadmus),
17 and TV Guide Magazine, where I handled both production and distribution functions. In
18 addition, I have also consulted for Dennis Publishing, Deutsche Post Global Mail and
19 others.

20 I served as a member of MTAC for several years, and I am the Industry Co-
21 Chair for the USPS Periodicals Focus Groups in the Eastern and Capital Metro Areas. I
22 have spoken at Postal Forums and MAILCOM, and am a Certified Mail and Distribution
23 Systems Manager (from Mail Systems Management Association). I have also attained

1 the Periodicals Professional Certificate from the USPS. I have a certificate in Criminal
2 Justice from Villanova University and Associate in Arts degree from California State
3 Merced.

4 **The Availability of Co-Mailing and Co-Palletizing**

5 In the Time Warner complaint case, American Business Media's witnesses
6 pointed to progress that had been made to enable smaller publications to co-mail and
7 co-palletize, and we showed that no rate change was necessary to produce this result.
8 I agreed there with Time Warner witness Schick, who testified (Tr. 430 and 504 in
9 Docket No. C2004-1) that the co-mail incentives then in place were adequate, for those
10 that are able to participate. Surely, nothing has happened since to diminish those
11 incentives. Both MPA/ANM (Tr. 298, Glick) and Time Warner (Tr. 518, Mitchell) agree
12 that today's rates provide incentives for co-mailing and co-palletizing (although they
13 would like to see those incentives increased), and all three of the proposals would
14 increase those incentives.

15 In fact, in response to an interrogatory in this case, American Business Media
16 has provided data that show substantial progress in this area. I am attaching as Exhibit
17 LB-1 the table provided by American Business Media to Time Warner, which sets forth
18 the results of an American Business Media survey for the 360 responding publications.
19 As shown there, about 1/3rd of the publications are predominantly sacked, and they
20 account for only about 1/4th of the total mailed volumes. In other words, about 74% of
21 the 251,000,000 pieces are associated with publications that are not predominantly
22 sacked. See Exhibit LB-2.

1 Five years ago, American Business Media conducted a more extensive survey of
2 its members' mailing characteristics, and a comparison of its results with those obtained
3 earlier this year is noteworthy. In the 2001 survey, there were 161 titles responding, but
4 the circulations were larger, and they accounted for 174,000,000 pieces annually. Of
5 those pieces, 65% were on pallets, but the actual increase in palletization since then is
6 significantly larger than that 9 percentage point gain. The earlier survey included three
7 very large (for American Business Media) circulation publications that are not included
8 in the more recent data. Those three accounted for 41,000,000 of the annual pieces,
9 and as might be expected for larger circulation publications, 38,000,000 of those pieces
10 were on pallets. Of the remaining publications, which more closely resemble the 360
11 publications in the recent data, 57% of the pieces were palletized. Therefore, it appears
12 from this data that, in five years, the amount of palletization of the typical small to
13 medium sized American Business Media member publications has increased by about
14 30%, or from 57% of the mail pieces to 74%. MPA/ANM witness Cohen is right when
15 she says that co-mailing "has really grown" (Tr. 10184).

16 But despite this growth, it is clear that there are large and important segments of
17 the periodicals industry that cannot co-mail or co-palletize in order to get out of sacks
18 and will not be able to in the next few months and possibly years. Our concern in this
19 case is the same as in the complaint case: weeklies, the very small publications,
20 tabloids, the small printers with relatively few publications and others that cannot turn a
21 switch or run a program to change their mailing characteristics or the way that they
22 prepare mail. Witness Schick recognized in 2004 that, even with all of the resources of
23 Quad/Graphics and its admirable history of co-mailing, his clients have valid reasons for

1 not being able to co-mail, including daily or weekly production schedules that would be
2 difficult to adjust or expand, differing trim sizes, printed polywrap and multiple insertions
3 (Tr. 414 in Docket No. C2004-1), and he added that publications or versions with fewer
4 than 1,500 pieces cannot be co-mailed as a practical matter (Tr. 448 in Docket No.
5 C2004-1). He repeated (Tr. 425 in Docket No. C2004-1) that, even with the multiple
6 and sophisticated co-mail pools run by Quad/Graphics, weekly publications in co-mail
7 pools would risk missing critical entry times. From my own experience, I know that Mr.
8 Shick's conclusions about the impediments to co-mailing and co-palletizing remain valid
9 today. No one has introduced informed testimony in this case even hinting to the
10 contrary.

11 I understand that, as a theoretical proposition, even a printer printing four small
12 publications a month can run them on a 4-pocket Sitma and co-mail, but it could not do
13 so as a practical matter. For one thing, they would all have to print at roughly the same
14 time of the month (unless some agreed to sit around for up to a couple of weeks). For
15 another, the ability to make four 20,000 circulation publications look for postal purposes
16 like one 80,000 publication is unlikely to lead to substantial improvement in the ability to
17 avoid sacks and the worst of the proposed rates. For even smaller publications, there
18 is even less to gain.

19 Co-mailing takes volume. It's no accident that, according to testimony in Docket
20 No. C2004-1, the latest that is available, nine out of Quad/Graphics' ten co-mail pools
21 per month then contained one participant with at least 100,000 copies, and eight of
22 those ten had a participant with at least 250,000 copies (Tr. 391 in Docket No. C2004-

1 1). Of the 105 titles that participated in the Quad/Graphics co-mail pools, only 30 had
2 circulation less than 100,000, and more than half had circulation in excess of 200,000.

3 Circulation numbers like that are impossible for shorter-run printers, and pools of
4 that size would be available to shorter-run printers only if they were very large
5 companies printing hundreds of titles and co-mailing with many pockets. I do agree
6 with MPA/ANM witness Cohen that co-mailing and co-palletizing are becoming
7 increasingly available for shorter run publications, but there is a very long way to go
8 before that availability is anywhere near universal.

9 My experience at VNU is instructive. We are a relatively large business
10 publications mailer, with 40 titles mailing about 18,100,000 copies annually. Of our 34
11 periodical titles, we co-mail 14 and co-palletize 8. However, we are not able to procure
12 either service for a good many of our copies, especially tabloids and polybagged
13 publications. In addition, the publications world is moving more and more in the
14 direction of versioning, by which I mean that a publication to survive must make
15 available to its advertisers editions broken down geographically and/or demographically.
16 When we do so, we in effect create some or many small publications out of one larger
17 one. In our case, approximately 50% of our publications have multiple versions, and in
18 many cases, those versions contain fewer than 5,000 pieces.

19 Our printers will not co-mail versions that small. We pushed one of our printers,
20 Banta, to at least co-mail down to 2,500 pieces, but it refused. Eventually, it agreed to
21 co-mail down to 5,000 pieces. We certainly have more clout in the marketplace than a
22 small publisher with one or a few publications that small. If we cannot convince our
23 printer to co-mail, the small publisher would stand no chance. A quick review of 9 of our

1 co-mailed titles shows 99 issues mailed in 211 versions, with 70 of the versions under
2 5,000 copies. In terms of copies, 126,388 of a total 3,926,090 were unable to co-mail
3 due to versioning.

4 We also have 3 periodicals publications without versioning that mail fewer than
5 3,000 copies per issue. And our 7 weeklies and 1 daily are too time sensitive to wait for
6 a co-mailing or co-palletizing pool, a topic that will be addressed by American Business
7 Media witness McGarvy. Two other bi-weekly tabloids drop ship alone as well. These
8 time sensitive publications simply don't generate enough weight to make pallets in
9 almost all cases. They are specialty publications geared to a limited number of people
10 in specific industries.

11 I understand that, as other witnesses have indicated, one printer—Ovid Bell—
12 may be co-mailing a small number of publications down to several thousand, but there
13 is no indication of the extent of postal savings obtained, the fees (if any) charged or the
14 number of publications involved. The 5,000 minimum we have faced appears to be the
15 norm. MPA/ANM witness Glick agreed that some printers apply that standard (Tr. ¹⁰422).
16 He was correct. For example, Exhibit LB-3 is a page downloaded from the Internet in
17 which Quebecor World explains that candidates for its "Express Collation Mailing
18 System" for co-mailing may not have a version under 5,000 copies and may not have
19 more than two versions between 5,000 and 10,000 copies. In Exhibit LB-4, Quebecor
20 World touts the fact that it is now (as of October 11 of this year) co-mailing 450 titles.
21 That is good, but the industry has a very long way to go before it can co-mail the
22 thousands of shorter run publications now in sacks. Perhaps the limits on the capacity
23 for co-mailing explain why Time Warner has a 30,000 piece supplement that is mailed in

1 sacks and why, annually, 4,000,000 copies of Time magazine are mailed in sacks (Tr.
2 615-16).

3 **Impact**

4 Another problem with simply assuming that co-mailing will allow small mailers
5 and others that cannot otherwise move out of sacks to escape much of the burden that
6 the proposed rate designs would cause is the cost to the publisher of obtaining co-
7 mailing or co-palletizing service, a matter that Time Warner and MPA/ANM studiously
8 avoided. See, for example, Tr.¹⁰ 476 (Mitchell) and Tr.¹⁰ 421 (Glick). VNU began co-
9 mailing 9 of its titles in 2004 and now co-mails 14. Our experience is that we can
10 expect to see gross postage savings of at most about 15% to 20%, with the added front-
11 end costs eroding about half of that number.

12 Neither Time Warner nor MPA/ANM has added these costs to the "Impact
13 equation," so that the naked assertion that mailers can avoid the very large increases
14 that their proposals would cause is unsupported and not testable, even if and to the
15 extent that co-mailing and co-palletizing might soon become available to some of them.
16 From the data that are available, however, it appears that smaller circulation
17 publications especially will bear a heavy burden from their proposals. MPA/ANM's
18 response to POIR 19 (Tr. 10371-79) shows that 10% of the publications analyzed would
19 suffer an increase of greater than 20% under its proposal (26 out of 259, which would
20 translate into about 3,000 publications if the sample is representative of the whole),
21 although none of the 52 "large" publications (100,000 or more) would. Three of the 100
22 "medium" publications (15,000 to 100,000) would see increases of 20% or more, but 23
23 out of the 107 "small" publications (less than 15,000) would see increases of that size.

1 Meanwhile, 30 of the 52 large would be increased less than 10%, while only 3 of the
2 107 small would be so lucky.

3 The Time Warner proposal is far worse for all but the largest publications.
4 Its (original) response to POIR 19 (Tr. 10601-11) shows that 79 of the 259 publications,
5 or 30% (which would translate to about 9,000 publications if the sample is
6 representative), would see increases of 20% or more, some much more. Forty-one
7 would see increases of greater than 25%. Only 3 of the 52 large publications would be
8 so afflicted, while 28 of the 100 medium and 48 of the 107 small would suffer increases
9 of 20% or more. On the other hand, fully half of the large publications would experience
10 rate increases smaller than 10%, and 15 would experience increases of less than 6%.
11 The revised version filed last Friday does not appear to differ much.

12 **Conclusion**

13 As I stated in my testimony in Docket No. C2004-1, American Business Media
14 and its members are not opposed to measured changes in rate design that have the
15 dual effect of providing additional incentives to move from sacks to pallets and providing
16 cost-based rate breaks to those already mailing on pallets. Our differences with other
17 parties appear to center around the appropriate size of the incentives/rewards and the
18 speed with which rates should be changed. In the first instance, we urge the
19 Commission to recognize that thousands of small and medium size publications, and
20 even some larger ones, do not now and will not in the near future have the option of
21 mailing on pallets. In the second, it serves little purpose to create a demand for
22 services well in excess of the ability of the industry to provide them. Great progress in
23 co-mailing and co-palletizing has been accomplished and will be accomplished with a

1 level of incentives at or near the level in today's rates. Pushing the incentive
2 accelerator to the floor will do far more harm than good.

3 I can add one authority to my conclusion—none other than the Association of
4 Nonprofit Mailers itself. In its November 17, 2006, "Alliance Report," it stated (bold type
5 in original, bracketed material added):

6 **Unfair penalty for mailers who cannot prepare Periodicals mailings**
7 **on pallets.**

8 The [Postal Service] pricing proposal includes a new \$0.85 Outside-
9 County Container Rate. An Alliance member organization is working with
10 its publisher to prepare as efficiently as possible. These efforts have not
11 come without cost to the nonprofit. However, it is impossible to prepare
12 several of its titles on pallets. The nonprofit is facing a 13 percent to 17
13 percent increase in postage alone. Add to that the penalty for its inability
14 to prepare pallets and the nonprofit may not be able to continue providing
15 its members with quality publications.

16 My only comment is to note that the "penalty" in the MPA/ANM proposal for
17 "mailers who cannot prepare Periodicals mailings on pallets" appears to be even larger
18 than that proposed by the Postal Service. Tr. 10282-83, 10289.

Responses to American Business Media Survey

LB-1

| A | B | C | D | E | F | G | H | I |
|----------|-----------|--------------|-------------------|----------------|------------|--------------------|-----------------------|--------------|
| Pub. No. | Frequency | Apprx. Circ. | Palletized Alone? | Co-Palletized? | Co-Mailed? | >25% Drop-Shipped? | Predominantly Sacked? | Printer Code |
| 1 | 12 | 200,000 | N | Y | Y | Y | N | A |
| 2 | 4 | 200,000 | N | Y | Y | N | N | A |
| 3 | 12 | 33,000 | | | | N | Y | B |
| 4 | 12 | 22,000 | | | | N | Y | B |
| 5 | 12 | 24,000 | | | | N | Y | B |
| 6 | 12 | 8,000 | | | | N | Y | B |
| 7 | 12 | 19,000 | | | | N | Y | B |
| 8 | 52 | 53,000 | | | | N | Y | Y |
| 9 | 12 | 52,000 | | | | N | N | C |
| 10 | 14 | 22,000 | | N | N | N | Y | C |
| 11 | 12 | 36,000 | | Y | N | N | N | D |
| 12 | 12 | 25,000 | | Y | N | N | N | D |
| 13 | 12 | 129,000 | | Y | N | N | N | D |
| 14 | 12 | 126,000 | | Y | N | N | N | D |
| 15 | 10 | 91,000 | | Y | N | N | N | D |
| 16 | 12 | 14,000 | | Y | N | N | N | D |
| 17 | 6 | 30,000 | | Y | N | N | N | D |
| 18 | 12 | 19,000 | | Y | N | N | N | D |
| 19 | 12 | 40,000 | | Y | N | N | N | D |
| 20 | 24 | 119,000 | | Y | N | Y | N | E |
| 21 | 24 | 92,000 | | Y | N | Y | N | E |
| 22 | 24 | 40,000 | | Y | N | Y | N | E |
| 23 | 12 | 53,000 | | Y | N | Y | N | E |
| 24 | 12 | 16,000 | | Y | N | Y | N | E |
| 25 | 12 | 43,000 | | Y | N | Y | N | E |
| 26 | 12 | 10,000 | | Y | N | Y | N | E |
| 27 | 12 | 22,000 | | | Y | Y | N | C |
| 28 | 24 | 12,000 | | | Y | Y | N | C |
| 29 | 24 | 26,000 | | | Y | Y | N | C |
| 30 | 12 | 3,000 | | | | N | Y | F |
| 31 | 12 | 2,000 | | | | N | Y | F |
| 32 | 6 | 250 | | | | N | | F |
| 33 | 12 | 25,000 | | | | N | | F |
| 34 | 12 | 17,000 | | | | N | | F |

Responses to American Business Media Survey

LB-1

| A | B | C | D | E | F | G | H | I |
|----------|-----------|-------------|-------------------|----------------|------------|--------------------|-----------------------|--------------|
| Pub. No. | Frequency | Appx. Circ. | Palletized Alone? | Co-Palletized? | Co-Mailed? | >25% Drop-Shipped? | Predominantly Sacked? | Printer Code |
| 35 | 199 | 9,000 | | | | Y | Y | G |
| 36 | 52 | 22,000 | | | | Y | Y | H |
| 37 | 51 | 5,000 | | | | Y | N | I |
| 38 | 51 | 4,000 | | | | Y | N | J |
| 39 | 51 | 11,000 | | | | Y | Y | K |
| 40 | 47 | 12,000 | | | | Y | Y | K |
| 41 | 45 | 18,000 | | | | Y | Y | K |
| 42 | 45 | 11,000 | | | | Y | Y | J |
| 43 | 24 | 2,000 | | | | N | Y | C |
| 44 | 23 | 30,000 | | Y | | Y | N | C |
| 45 | 21 | 31,000 | | Y | | Y | N | C |
| 46 | 18 | 56,000 | | Y | | Y | N | C |
| 47 | 18 | 46,000 | | Y | | Y | N | K |
| 48 | 15 | 75,000 | | | | Y | N | K |
| 49 | 15 | 51,000 | | | Y | Y | N | K |
| 50 | 13 | 14,000 | | | Y | Y | N | C |
| 51 | 13 | 37,000 | | | | Y | N | K |
| 52 | 12 | 88,000 | | | | Y | N | C |
| 53 | 12 | 31,000 | | | | Y | N | C |
| 54 | 12 | 22,000 | | | | Y | N | C |
| 55 | 12 | 3,000 | | | | N | Y | C |
| 56 | 12 | 41,000 | | Y | | N | N | C |
| 57 | 12 | 52,000 | | | | Y | N | C |
| 58 | 12 | 27,000 | | Y | | Y | N | J |
| 59 | 12 | 16,000 | | Y | | Y | N | C |
| 60 | 12 | 24,000 | | Y | | Y | N | K |
| 61 | 12 | 73,000 | | | Y | Y | N | C |
| 62 | 12 | 26,000 | | Y | | Y | N | C |
| 63 | 11 | 39,000 | | | | Y | N | K |
| 64 | 11 | 21,000 | | | Y | Y | N | C |
| 65 | 10 | 19,000 | | | Y | Y | Y | I |
| 66 | 10 | 2,000 | | | | N | Y | G |
| 67 | 10 | 23,000 | | | | Y | Y | G |
| 68 | 9 | 31,000 | | Y | | Y | N | C |

Responses to American Business Media Survey

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| A | B | C | D | E | F | G | H | I |
|----------|-----------|-------------|-------------------|----------------|------------|--------------------|-----------------------|--------------|
| Pub. No. | Frequency | Appx. Circ. | Palletized Alone? | Co-Palletized? | Co-Mailed? | >25% Drop-Shipped? | Predominantly Sacked? | Printer Code |
| 69 | 9 | 46,000 | | | | N | | C |
| 70 | 9 | 65,000 | | | Y | Y | N | K |
| 71 | 9 | 45,000 | | Y | | Y | N | C |
| 72 | 7 | 26,000 | | | | Y | N | C |
| 73 | 4 | 8,000 | | | Y | Y | N | K |
| 74 | 6 | 35,000 | | | Y | Y | N | K |
| 75 | 12 | 36,000 | | | Y | Y | N | L |
| 76 | 3 | 8,000 | | | | Y | N | L |
| 77 | 1 | 8,000 | | | | Y | N | L |
| 78 | 12 | 83,000 | | Y | N | Y | N | N |
| 79 | 10 | 46,000 | | Y | N | | N | N |
| 80 | 12 | 56,000 | | | Y | | | C |
| 81 | 12 | 40,000 | | | Y | | | C |
| 82 | 12 | 22,000 | | | Y | | | C |
| 83 | 12 | 17,000 | | | Y | | | C |
| 84 | 6 | 13,000 | | | Y | | | C |
| 85 | 12 | 6,000 | | | Y | | | C |
| 86 | 10 | 4,000 | | | N | | | C |
| 87 | 12 | 2,000 | | | N | | | C |
| 88 | 10 | 1,000 | | | N | | | C |
| 89 | 6 | 1,000 | | | N | | | C |
| 90 | 12 | 480 | | | N | | | C |
| 91 | 12 | 200,000 | Y | N | N | Y | N | N |
| 92 | 48 | 66,000 | | Y | N | Y | | E |
| 93 | 48 | 51,000 | | Y | N | Y | | E |
| 94 | 12 | 20,000 | | N | Y | Y | | E |
| 95 | 12 | 8,000 | | N | Y | Y | | E |
| 96 | 26 | 5,000 | | Y | N | Y | | E |
| 97 | 11 | 55,000 | | N | Y | Y | | E |
| 98 | 13 | 59,000 | | N | Y | Y | | E |
| 99 | 12 | 96,000 | | N | Y | Y | | E |
| 100 | 12 | 15,000 | | N | Y | | | D |
| 101 | 12 | 78,000 | | Y | | | N | |
| 102 | 12 | 15,000 | Y | N | | | N | J |

Responses to American Business Media Survey

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| A | B | C | D | E | F | G | H | I |
|----------|-----------|-------------|-------------------|----------------|------------|--------------------|-----------------------|--------------|
| Pub. No. | Frequency | Appx. Circ. | Palletized Alone? | Co-Palletized? | Co-Mailed? | >25% Drop-Shipped? | Predominantly Sacked? | Printer Code |
| 103 | 12 | 10,000 | | Y | | | N | D |
| 104 | 12 | 49,000 | | Y | | | N | D |
| 105 | 12 | 51,000 | | Y | | | N | D |
| 106 | 12 | 51,000 | | Y | | | N | D |
| 107 | 12 | 36,000 | | Y | | | N | D |
| 108 | 12 | 65,000 | | Y | | | N | D |
| 109 | 24 | 123,000 | | Y | | | N | D |
| 110 | 12 | 44,000 | | Y | | | N | D |
| 111 | 6 | 5,000 | | Y | | | N | D |
| 112 | 12 | 13,000 | | Y | | | Y | D |
| 113 | 12 | 8,000 | | Y | | | N | D |
| 114 | 6 | 5,000 | | Y | | | N | D |
| 115 | 12 | 65,000 | | Y | | | N | D |
| 116 | 6 | 19,000 | | Y | | | Y | D |
| 117 | 12 | 51,000 | Y | N | | | N | D |
| 118 | 12 | 45,000 | | Y | | | N | D |
| 119 | 12 | 168,000 | | Y | | | N | D |
| 120 | 12 | 21,000 | | Y | | | N | D |
| 121 | 12 | 46,000 | | Y | | | N | D |
| 122 | 12 | 75,000 | | Y | | | N | D |
| 123 | 24 | 148,000 | | Y | | | N | D |
| 124 | 12 | 65,000 | | Y | | | Y | D |
| 125 | 6 | 11,000 | | Y | | | N | D |
| 126 | 12 | 30,000 | | Y | | | N | D |
| 127 | 12 | 27,000 | | Y | | | N | D |
| 128 | 12 | 59,000 | | Y | | | N | D |
| 129 | 12 | 17,000 | Y | N | | | N | D |
| 130 | 13 | 189,000 | | Y | | | N | D |
| 131 | 12 | 68,000 | | Y | | | N | D |
| 132 | 12 | 109,000 | | Y | | | N | D |
| 133 | 12 | 20,000 | | N | | | N | D |
| 134 | 12 | 38,000 | | Y | | | N | D |
| 135 | 12 | 73,000 | | Y | | | Y | D |
| 136 | | 23,000 | | | | | | |

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| A | B | C | D | E | F | G | H | I |
|----------|-----------|-------------|-------------------|----------------|------------|--------------------|-----------------------|--------------|
| Pub. No. | Frequency | Appx. Circ. | Palletized Alone? | Co-Palletized? | Co-Mailed? | >25% Drop-Shipped? | Predominantly Sacked? | Printer Code |
| 137 | | 63,000 | | | | | Y | D |
| 138 | | 93,000 | | | | | Y | D |
| 139 | | 5,000 | | | | | Y | O |
| 140 | | 19,000 | | | | | Y | O |
| 141 | | 18,000 | | | | | N | O |
| 142 | 9 | 35,000 | N | Y | N | Y | N | P |
| 143 | 12 | 20,000 | N | Y | N | Y | N | P |
| 144 | 12 | 21,000 | N | Y | N | Y | N | P |
| 145 | 6 | 23,000 | N | Y | N | Y | N | P |
| 146 | 12 | 103,000 | Y | Y | N | Y | N | P |
| 147 | 6 | 22,000 | Y | Y | N | Y | N | P |
| 148 | 12 | 49,000 | Y | Y | N | Y | N | P |
| 149 | 12 | 12,000 | N | Y | N | Y | N | P |
| 150 | 6 | 24,000 | N | N | N | N | Y | P |
| 151 | 12 | 32,000 | N | Y | N | Y | N | P |
| 152 | 12 | 46,000 | Y | Y | N | Y | N | P |
| 153 | 12 | 17,000 | N | Y | N | Y | N | P |
| 154 | 12 | 31,000 | N | Y | N | Y | N | P |
| 155 | 12 | 15,000 | Y | Y | N | Y | N | P |
| 156 | 12 | 9,000 | N | N | N | N | Y | L |
| 157 | 48 | 19,000 | N | N | N | Y | Y | P |
| 158 | 12 | 15,000 | Y | Y | N | Y | N | P |
| 159 | 12 | 20,000 | N | Y | N | Y | N | P |
| 160 | 12 | 53,000 | Y | Y | N | Y | N | P |
| 161 | 12 | 66,000 | Y | Y | N | Y | N | P |
| 162 | 7 | 18,000 | N | Y | N | Y | N | P |
| 163 | 12 | 30,000 | Y | Y | N | Y | N | P |
| 164 | 12 | 22,000 | Y | Y | N | Y | N | P |
| 165 | 10 | 30,000 | N | Y | N | Y | N | P |
| 166 | 12 | 21,000 | Y | Y | N | Y | N | P |
| 167 | 12 | 54,000 | Y | Y | N | Y | N | P |
| 168 | 12 | 28,000 | N | N | N | N | N | D |
| 169 | 12 | 52,000 | | Y | | | N | D |
| 170 | 10 | 39,000 | | Y | | | N | D |

Responses to American Business Media Survey

LB-1

| A | B | C | D | E | F | G | H | I |
|----------|-----------|-------------|-------------------|----------------|------------|--------------------|-----------------------|--------------|
| Pub. No. | Frequency | Appx. Circ. | Palletized Alone? | Co-Palletized? | Co-Mailed? | >25% Drop-Shipped? | Predominantly Sacked? | Printer Code |
| 171 | 9 | 16,000 | | Y | | | N | D |
| 172 | 6 | 16,000 | | Y | | | N | D |
| 173 | 12 | 22,000 | | Y | | | N | D |
| 174 | 7 | 13,000 | | Y | | | N | D |
| 175 | 9 | 14,000 | | Y | | | N | D |
| 176 | 13 | 40,000 | | | Y | | N | D |
| 177 | 7 | 32,000 | | Y | | | N | D |
| 178 | 12 | 63,000 | | | Y | | N | D |
| 179 | 16 | 249,000 | Y | Y | | Y | Y | P |
| 180 | 6 | 35,000 | Y | Y | N | Y | Y | P |
| 181 | 12 | 67,000 | Y | Y | N | Y | Y | P |
| 182 | 12 | 71,000 | Y | Y | N | Y | N | P |
| 183 | 9 | 30,000 | Y | Y | N | Y | Y | P |
| 184 | 9 | 31,000 | Y | Y | N | Y | Y | P |
| 185 | 52 | 122,000 | Y | N | N | Y | N | P |
| 186 | 52 | 131,000 | Y | N | N | Y | Y | C |
| 187 | 12 | 40,000 | Y | N | N | Y | Y | C |
| 188 | 12 | 78,000 | Y | N | N | Y | N | A |
| 189 | 26 | 217,000 | Y | N | N | Y | N | A |
| 190 | 26 | 112,000 | Y | N | N | Y | N | A |
| 191 | 12 | 84,000 | Y | N | Y | Y | N | A |
| 192 | 12 | 65,000 | Y | N | Y | Y | N | A |
| 193 | 12 | 71,000 | Y | N | Y | Y | N | A |
| 194 | 52 | 445,000 | Y | N | Y | Y | N | A |
| 195 | 12 | 102,000 | Y | Y | | Y | N | P |
| 196 | 12 | 83,000 | Y | Y | | Y | N | P |
| 197 | 12 | 40,000 | Y | Y | | Y | N | P |
| 198 | 12 | 102,000 | | Y | | | Y | P |
| 199 | 11 | 31,000 | | N | N | | Y | C |
| 200 | 1 | 70,000 | | N | N | | N | C |
| 201 | 12 | 44,000 | | N | N | | Y | C |
| 202 | 12 | 37,000 | | N | N | | Y | C |
| 203 | 22 | 37,000 | | N | N | | Y | C |
| 204 | 12 | 31,000 | | N | N | | Y | C |

Responses to American Business Media Survey

LB-1

| A | B | C | D | E | F | G | H | I |
|----------|-----------|-------------|-------------------|----------------|------------|--------------------|-----------------------|--------------|
| Pub. No. | Frequency | Appx. Circ. | Palletized Alone? | Co-Palletized? | Co-Mailed? | >25% Drop-Shipped? | Predominantly Sacked? | Printer Code |
| 205 | 15 | 70,000 | | N | N | Y | N | C |
| 206 | 12 | 24,000 | | N | N | | Y | C |
| 207 | 12 | 15,000 | | N | N | | Y | C |
| 208 | 48 | 1,000 | | N | N | Y | Y | J |
| 209 | 12 | 10,000 | | N | N | | Y | J |
| 210 | 16 | 9,000 | | N | N | | Y | N |
| 211 | 12 | 76,000 | | N | N | Y | N | N |
| 212 | 12 | 102,000 | | N | N | Y | N | N |
| 213 | 12 | 93,000 | | N | N | Y | N | N |
| 214 | 12 | 27,000 | | N | N | | Y | N |
| 215 | 11 | 40,000 | | N | N | | Y | N |
| 216 | 12 | 9,000 | | N | N | | Y | N |
| 217 | 13 | 31,000 | | N | N | | Y | N |
| 218 | 13 | 23,000 | | N | N | | Y | N |
| 219 | 12 | 35,000 | | N | N | | Y | N |
| 220 | 12 | 41,000 | | N | N | | Y | N |
| 221 | 249 | 4,000 | | N | N | Y | Y | Q |
| 222 | 249 | 450 | | N | N | Y | Y | Q |
| 223 | 51 | 9,000 | | N | N | Y | Y | Q |
| 224 | 50 | 8,000 | | N | N | Y | Y | Q |
| 225 | 42 | 2,000 | | N | N | Y | Y | Q |
| 226 | 13 | 21,000 | | Y | Y | Y | | E |
| 227 | 8 | 12,000 | | Y | Y | Y | | E |
| 228 | 12 | 9,000 | | Y | Y | Y | | E |
| 229 | 12 | 22,000 | | Y | Y | Y | | E |
| 230 | 6 | 17,000 | | Y | Y | Y | | E |
| 231 | 13 | 9,000 | | Y | Y | Y | | E |
| 232 | 13 | 23,000 | | Y | Y | Y | | E |
| 233 | 10 | 20,000 | | Y | Y | Y | | E |
| 234 | 13 | 56,000 | | Y | Y | Y | | E |
| 235 | 12 | 48,000 | | Y | Y | Y | | E |
| 236 | 10 | 23,000 | | Y | Y | Y | | E |
| 237 | 12 | 32,000 | | Y | Y | Y | | E |
| 238 | 10 | 11,000 | | Y | Y | Y | | E |

Responses to American Business Media Survey

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| A | B | C | D | E | F | G | H | I |
|----------|-----------|--------------|-------------------|----------------|------------|--------------------|-----------------------|--------------|
| Pub. No. | Frequency | Apprx. Circ. | Palletized Alone? | Co-Palletized? | Co-Mailed? | >25% Drop-Shipped? | Predominantly Sacked? | Printer Code |
| 239 | 52 | 25,000 | N | N | N | Y | Y | J |
| 240 | 14 | 73,000 | Y | N | Y | Y | N | K |
| 241 | 12 | 47,000 | N | Y | N | Y | N | P |
| 242 | 12 | 16,000 | N | N | N | N | N | J |
| 243 | 7 | 37,000 | N | N | N | N | Y | K |
| 244 | 24 | 9,000 | N | N | N | N | Y | C |
| 245 | 24 | 10,000 | N | N | N | N | Y | C |
| 246 | 13 | 50,000 | Y | N | Y | Y | N | K |
| 247 | 13 | 21,000 | N | N | N | N | Y | K |
| 248 | 24 | 12,000 | N | N | N | Y | N | C |
| 249 | 12 | 85,000 | N | N | N | N | Y | P |
| 250 | 14 | 19,000 | N | N | N | N | Y | K |
| 251 | 24 | 6,000 | N | N | N | N | Y | C |
| 252 | 52 | 3,000 | N | N | N | N | Y | R |
| 253 | 24 | 9,000 | N | N | N | N | Y | C |
| 254 | 12 | 44,000 | N | N | Y | Y | N | K |
| 255 | 13 | 43,000 | N | N | N | Y | Y | K |
| 256 | 12 | 86,000 | N | N | N | N | Y | K |
| 257 | 12 | 36,000 | N | N | Y | Y | N | K |
| 258 | 18 | 157,000 | Y | N | Y | Y | N | K |
| 259 | 258 | 24,000 | N | N | N | Y | Y | S |
| 260 | 258 | 10,000 | N | N | N | Y | Y | J |
| 261 | 24 | 9,000 | N | N | N | N | Y | C |
| 262 | 12 | 48,000 | N | N | Y | Y | N | K |
| 263 | 15 | 108,000 | Y | Y | N | Y | N | P |
| 264 | 26 | 115,000 | Y | N | Y | Y | N | K |
| 265 | 12 | 22,000 | N | N | Y | Y | N | K |
| 266 | 12 | 38,000 | N | Y | N | Y | Y | P |
| 267 | 52 | 23,000 | N | N | N | Y | N | J |
| 268 | 12 | 74,000 | N | N | Y | Y | N | K |
| 269 | 13 | 33,000 | N | N | N | Y | N | J |
| 270 | 6 | 17,000 | N | N | Y | Y | N | K |
| 271 | 13 | 27,000 | N | N | N | Y | N | J |
| 272 | 12 | 57,000 | N | N | Y | Y | N | K |

Responses to American Business Media Survey

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| A | B | C | D | E | F | G | H | I |
|----------|-----------|--------------|-------------------|----------------|------------|--------------------|-----------------------|--------------|
| Pub. No. | Frequency | Apprx. Circ. | Palletized Alone? | Co-Palletized? | Co-Mailed? | >25% Drop-Shipped? | Predominantly Sacked? | Printer Code |
| 273 | 49 | 10,000 | N | N | N | Y | Y | J |
| 274 | 10 | 63,000 | N | N | N | N | N | J |
| 275 | | 80,000 | N | N | N | Y | Y | K |
| 276 | 10 | 95,000 | N | Y | N | Y | N | J |
| 277 | 12 | 28,000 | N | N | Y | Y | N | K |
| 278 | 13 | 29,000 | N | N | N | Y | N | K |
| 279 | 12 | 73,000 | N | Y | Y | Y | N | P |
| 280 | 51 | 2,000 | N | N | N | N | Y | T |
| 281 | 12 | 19,000 | N | N | N | N | N | J |
| 282 | 12 | 72,000 | N | N | Y | Y | N | K |
| 283 | 12 | 90,000 | Y | N | Y | Y | N | K |
| 284 | 13 | 66,000 | N | Y | N | Y | N | P |
| 285 | 52 | 3,000 | N | N | N | N | Y | R |
| 286 | 52 | 20,000 | N | N | N | Y | Y | K |
| 287 | 12 | 37,000 | N | N | N | N | Y | K |
| 288 | 6 | 63,000 | N | Y | N | Y | N | P |
| 289 | 13 | 81,000 | Y | N | N | Y | N | K |
| 290 | 24 | 7,000 | N | N | N | N | Y | C |
| 291 | 24 | 11,000 | N | N | N | N | Y | C |
| 292 | 14 | 128,000 | Y | N | N | Y | N | C |
| 293 | 24 | 10,000 | N | N | N | N | Y | C |
| 294 | 12 | 36,000 | N | Y | N | Y | N | P |
| 295 | 12 | 102,000 | Y | Y | N | Y | N | P |
| 296 | 12 | 128,000 | Y | Y | N | Y | N | P |
| 297 | 13 | 9,000 | N | N | N | N | Y | J |
| 298 | 12 | 95,000 | Y | N | Y | Y | N | K |
| 299 | 13 | 29,000 | N | Y | N | Y | N | P |
| 300 | 12 | 65,000 | Y | N | Y | Y | N | K |
| 301 | 9 | 71,000 | Y | Y | N | Y | N | P |
| 302 | 20 | 92,000 | Y | N | Y | Y | Y | K |
| 303 | 51 | 23,000 | N | N | N | Y | N | J |
| 304 | 12 | 70,000 | N | N | Y | Y | N | K |
| 305 | 24 | 156,000 | Y | N | Y | Y | N | C |
| 306 | 24 | 9,000 | N | N | N | N | Y | C |

Responses to American Business Media Survey

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| A | B | C | D | E | F | G | H | I |
|----------|-----------|------------|-------------------|----------------|------------|--------------------|-----------------------|--------------|
| Pub. No. | Frequency | Appx. Ctr. | Palletized Alone? | Co-Palletized? | Co-Mailed? | >25% Drop-Shipped? | Predominantly Sacked? | Printer Code |
| 307 | 12 | 35,000 | N | Y | N | Y | N | P |
| 308 | 9 | 17,000 | N | N | N | N | Y | K |
| 309 | 13 | 38,000 | N | N | Y | Y | N | K |
| 310 | 12 | 35,000 | N | N | N | N | N | J |
| 311 | 12 | 53,000 | N | N | N | N | Y | P |
| 312 | 27 | 28,000 | N | N | N | Y | Y | S |
| 313 | 11 | 58,000 | N | N | Y | Y | N | K |
| 314 | 54 | 2,000 | N | N | N | Y | Y | U |
| 315 | 52 | 40,000 | N | N | N | Y | Y | P |
| 316 | 26 | 23,000 | N | N | N | Y | Y | J |
| 317 | 24 | 7,000 | N | N | N | N | Y | C |
| 318 | 51 | 22,000 | N | N | N | Y | Y | J |
| 319 | 52 | 3,000 | N | N | N | N | Y | R |
| 320 | 12 | 35,000 | N | N | N | N | Y | K |
| 321 | 53 | 49,000 | N | N | N | Y | Y | J |
| 322 | 25 | 28,000 | N | N | N | Y | Y | K |
| 323 | 365 | 170 | N | N | N | N | Y | |
| 324 | 365 | 30 | N | N | N | N | Y | |
| 325 | 365 | 350 | N | N | N | N | Y | |
| 326 | 365 | 1,000 | N | N | N | N | Y | |
| 327 | 365 | 1,000 | N | N | N | N | Y | |
| 328 | 365 | 140 | N | N | N | N | Y | |
| 329 | 365 | 1,000 | N | N | N | N | Y | |
| 330 | 365 | 1,000 | N | N | N | N | Y | |
| 331 | 365 | 70 | N | N | N | N | Y | |
| 332 | 52 | 80,000 | N | N | N | N | Y | |
| 333 | 52 | 2,000 | N | N | N | N | Y | |
| 334 | 52 | 79,000 | N | N | N | Y | Y | |
| 335 | 52 | 1,000 | N | N | N | N | Y | |
| 336 | 52 | 450 | N | N | N | N | Y | |
| 337 | 52 | 9,000 | N | N | N | N | Y | |
| 338 | 12 | 107,000 | Y | N | N | Y | N | |
| 339 | 12 | 10,000 | Y | N | N | N | Y | |
| 340 | 12 | 36,000 | Y | N | N | Y | N | |

K

Responses to American Business Media Survey

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| A | B | C | D | E | F | G | H | I |
|------------|-----------|-------------|-------------------|----------------|------------|--------------------|-----------------------|--------------|
| Pub. No. | Frequency | Appx. Circ. | Palletized Alone? | Co-Palletized? | Co-Mailed? | >25% Drop-Shipped? | Predominantly Sacked? | Printer Code |
| 341 | 12 | 5,000 | N | N | N | Y | Y | Y |
| 342 | 12 | 6,000 | N | N | N | Y | Y | Y |
| 343 | 12 | 5,000 | N | N | N | Y | N | N |
| 344 | 12 | 7,000 | N | Y | N | Y | Y | N |
| 345 | 12 | 6,000 | N | N | N | N | N | N |
| 346 | 12 | 6,000 | Y | N | N | Y | N | N |
| 347 | 12 | 8,000 | N | Y | N | N | N | N |
| 348 | 12 | 6,000 | N | N | N | Y | Y | N |
| 349 | 12 | 6,000 | Y | N | N | Y | N | N |
| 350 | 12 | 4,000 | N | N | N | N | Y | Y |
| 351 | 12 | 1,000 | N | N | N | N | Y | Y |
| 352 | 12 | 2,000 | N | N | N | N | Y | Y |
| 353 | 12 | 1,000 | N | N | N | N | Y | Y |
| 354 | 12 | 450 | N | N | N | N | Y | Y |
| 355 | 12 | 1,000 | N | N | N | N | Y | Y |
| 356 | 12 | 1,000 | N | N | N | N | Y | Y |
| 357 | 12 | 190 | N | N | N | N | Y | Y |
| 358 | 4 | 35,000 | N | N | N | N | Y | Y |
| 359 | 4 | 1,000 | N | N | N | N | Y | Y |
| 360 | 4 | 1,000 | N | N | N | N | Y | Y |
| AVG: | 29 | 40,378 | | | | | | |
| Total "Y": | | | 55 | 122 | 67 | 192 | 135 | |
| Total "N": | | | 120 | 160 | 194 | 89 | 185 | |

Total Pieces for Publications Predominantly Sacked

LB-2

| A | B | C | D | E | F | G | H | I | J |
|----------|-----------|-------------|-------------------|-------------|------------|--------------------|-----------------------|--------------|---------------------|
| Pub. No. | Frequency | Appx. Circ. | Palletized Alone? | Palletized? | Co-Mailed? | >25% Drop-Shipped? | Predominantly Sacked? | Printer Code | Total Annual Pieces |
| 3 | 12 | 33,000 | | | | N | Y | B | 396,000 |
| 4 | 12 | 22,000 | | | | N | Y | B | 264,000 |
| 5 | 12 | 24,000 | | | | N | Y | B | 288,000 |
| 6 | 12 | 8,000 | | | | N | Y | B | 96,000 |
| 7 | 12 | 19,000 | | | | N | Y | B | 228,000 |
| 8 | 52 | 53,000 | | | | N | Y | V | 2,756,000 |
| 10 | 14 | 22,000 | | | N | N | Y | C | 308,000 |
| 30 | 12 | 3,000 | | | | N | Y | F | 36,000 |
| 31 | 12 | 2,000 | | | | N | Y | F | 24,000 |
| 32 | 6 | 250 | | | | N | Y | | 1,500 |
| 35 | 199 | 9,000 | | | | Y | Y | G | 1,791,000 |
| 36 | 52 | 22,000 | | | | Y | Y | G | 1,144,000 |
| 39 | 51 | 11,000 | | | | Y | Y | J | 561,000 |
| 40 | 47 | 12,000 | | | | Y | Y | K | 564,000 |
| 41 | 45 | 18,000 | | | | Y | Y | K | 810,000 |
| 42 | 45 | 11,000 | | | | Y | Y | K | 495,000 |
| 43 | 24 | 2,000 | | | | N | Y | J | 48,000 |
| 55 | 12 | 3,000 | | | | N | Y | C | 36,000 |
| 66 | 10 | 2,000 | | | | N | Y | I | 20,000 |
| 67 | 10 | 23,000 | | | | Y | Y | G | 230,000 |
| 113 | 12 | 8,000 | | | Y | | Y | D | 96,000 |
| 117 | 12 | 51,000 | Y | | Y | | Y | D | 612,000 |
| 125 | 6 | 11,000 | | | N | | Y | D | 66,000 |
| 150 | 6 | 24,000 | N | | N | | Y | P | 144,000 |
| 156 | 12 | 9,000 | N | | N | | Y | L | 108,000 |
| 157 | 48 | 19,000 | N | | N | | Y | P | 912,000 |
| 168 | 12 | 28,000 | N | | N | | Y | P | 336,000 |
| 180 | 6 | 35,000 | Y | | N | | Y | P | 210,000 |
| 181 | 12 | 67,000 | Y | | N | | Y | P | 804,000 |
| 182 | 12 | 71,000 | Y | | N | | Y | P | 852,000 |
| 184 | 9 | 31,000 | Y | | N | | Y | P | 279,000 |
| 187 | 12 | 40,000 | Y | | N | | Y | C | 480,000 |
| 188 | 12 | 78,000 | Y | | N | | Y | C | 936,000 |
| 199 | 11 | 31,000 | Y | | N | | Y | C | 341,000 |

Total Pieces for Publications Predominantly Sacked

LB-2

| A | B | C | D | E | F | G | H | I | J |
|----------|-----------|-------------|-------------------|----------------|------------|--------------------|-----------------------|--------------|---------------------|
| Pub. No. | Frequency | Appx. Circ. | Palletized Alone? | Co-Palletized? | Co-Mailed? | >25% Drop-Shipped? | Predominantly Sacked? | Printer Code | Total Annual Pieces |
| 201 | 12 | 44,000 | | N | N | | Y | C | 528,000 |
| 202 | 12 | 37,000 | | N | N | | Y | C | 444,000 |
| 203 | 22 | 37,000 | | N | N | | Y | C | 814,000 |
| 204 | 12 | 31,000 | | N | N | | Y | C | 372,000 |
| 206 | 12 | 24,000 | | N | N | | Y | C | 288,000 |
| 207 | 12 | 15,000 | | N | N | | Y | C | 180,000 |
| 208 | 48 | 1,000 | | N | N | Y | Y | J | 48,000 |
| 209 | 12 | 10,000 | | N | N | | Y | J | 120,000 |
| 210 | 16 | 9,000 | | N | N | Y | Y | J | 144,000 |
| 211 | 12 | 76,000 | | N | N | | Y | N | 912,000 |
| 214 | 12 | 27,000 | | N | N | | Y | N | 324,000 |
| 215 | 11 | 40,000 | | N | N | | Y | N | 440,000 |
| 216 | 12 | 9,000 | | N | N | | Y | N | 108,000 |
| 217 | 13 | 31,000 | | N | N | | Y | N | 403,000 |
| 218 | 13 | 23,000 | | N | N | | Y | N | 299,000 |
| 219 | 12 | 35,000 | | N | N | | Y | N | 420,000 |
| 220 | 12 | 41,000 | | N | N | | Y | N | 482,000 |
| 221 | 249 | 4,000 | | N | N | Y | Y | Q | 996,000 |
| 222 | 249 | 450 | | N | N | Y | Y | Q | 112,050 |
| 223 | 51 | 9,000 | | N | N | Y | Y | Q | 459,000 |
| 224 | 50 | 8,000 | | N | N | Y | Y | Q | 400,000 |
| 225 | 42 | 2,000 | | N | N | Y | Y | Q | 84,000 |
| 239 | 52 | 25,000 | N | N | N | Y | Y | J | 1,300,000 |
| 243 | 7 | 37,000 | N | N | N | N | Y | K | 259,000 |
| 244 | 24 | 9,000 | N | N | N | N | Y | C | 216,000 |
| 245 | 24 | 10,000 | N | N | N | N | Y | C | 240,000 |
| 247 | 13 | 21,000 | N | N | N | N | Y | K | 273,000 |
| 248 | 24 | 12,000 | N | N | N | N | Y | C | 288,000 |
| 250 | 14 | 19,000 | N | N | N | N | Y | K | 266,000 |
| 251 | 24 | 6,000 | N | N | N | N | Y | C | 144,000 |
| 252 | 52 | 3,000 | N | N | N | N | Y | R | 156,000 |
| 253 | 24 | 9,000 | N | N | N | N | Y | C | 216,000 |
| 255 | 13 | 43,000 | N | N | N | Y | Y | K | 559,000 |
| 256 | 12 | 86,000 | N | N | N | N | Y | K | 1,032,000 |

Total Pieces for Publications Predominantly Sacked

LB-2

| A | B | C | D | E | F | G | H | I | J |
|----------|-----------|-------------|-------------------|----------------|------------|--------------------|-----------------------|--------------|---------------------|
| Pub. No. | Frequency | Appx. Circ. | Palletized Alone? | Co-Palletized? | Co-Mailed? | >25% Drop-Shipped? | Predominantly Sacked? | Printer Code | Total Annual Pieces |
| 259 | 258 | 24,000 | N | N | N | Y | Y | S | 6,192,000 |
| 260 | 258 | 10,000 | N | N | N | Y | Y | J | 2,580,000 |
| 261 | 24 | 9,000 | N | N | N | N | Y | C | 216,000 |
| 267 | 52 | 23,000 | N | N | N | Y | Y | J | 1,196,000 |
| 271 | 13 | 27,000 | N | N | N | Y | Y | J | 351,000 |
| 273 | 49 | 10,000 | N | N | N | Y | Y | J | 490,000 |
| 280 | 51 | 2,000 | N | N | N | N | Y | T | 102,000 |
| 285 | 52 | 3,000 | N | N | N | N | Y | R | 156,000 |
| 286 | 52 | 20,000 | N | N | N | Y | Y | K | 1,040,000 |
| 287 | 12 | 37,000 | N | N | N | N | Y | K | 444,000 |
| 290 | 24 | 7,000 | N | N | N | N | Y | C | 168,000 |
| 291 | 24 | 11,000 | N | N | N | N | Y | C | 264,000 |
| 293 | 24 | 10,000 | N | N | N | N | Y | C | 240,000 |
| 297 | 13 | 9,000 | N | N | N | N | Y | J | 117,000 |
| 303 | 51 | 23,000 | N | N | N | Y | Y | J | 1,173,000 |
| 306 | 24 | 9,000 | N | N | N | N | Y | C | 216,000 |
| 308 | 9 | 17,000 | N | N | N | N | Y | K | 153,000 |
| 311 | 12 | 53,000 | N | N | N | N | Y | P | 636,000 |
| 312 | 27 | 28,000 | N | N | N | Y | Y | S | 756,000 |
| 314 | 54 | 2,000 | N | N | N | Y | Y | U | 108,000 |
| 315 | 52 | 40,000 | N | N | N | Y | Y | P | 2,080,000 |
| 316 | 26 | 23,000 | N | N | N | Y | Y | J | 598,000 |
| 317 | 24 | 7,000 | N | N | N | N | Y | C | 168,000 |
| 318 | 51 | 22,000 | N | N | N | Y | Y | J | 1,122,000 |
| 319 | 52 | 3,000 | N | N | N | N | Y | R | 156,000 |
| 320 | 12 | 35,000 | N | N | N | N | Y | K | 420,000 |
| 321 | 53 | 49,000 | N | N | N | Y | Y | J | 2,597,000 |
| 322 | 25 | 28,000 | N | N | N | Y | Y | K | 700,000 |
| 323 | 365 | 170 | N | N | N | N | Y | | 62,050 |
| 324 | 365 | 30 | N | N | N | N | Y | | 10,950 |
| 325 | 365 | 350 | N | N | N | N | Y | | 127,750 |
| 326 | 365 | 1,000 | N | N | N | N | Y | | 365,000 |
| 327 | 365 | 1,000 | N | N | N | N | Y | | 365,000 |
| 328 | 365 | 140 | N | N | N | N | Y | | 51,100 |

Total Pieces for Publications Predominantly Sacked

LB-2

| A | B | C | D | E | F | G | H | I | J |
|------------|-----------|-------------|-------------------|-------------|------------|--------------------|-----------------------|--------------|---------------------|
| Pub. No. | Frequency | Appx. Circ. | Palletized Alone? | Palletized? | Co-Mailed? | >25% Drop-Shipped? | Predominantly Sacked? | Printer Code | Total Annual Pieces |
| 329 | 365 | 1,000 | N | N | N | N | Y | | 365,000 |
| 330 | 365 | 1,000 | N | N | N | N | Y | | 365,000 |
| 331 | 365 | 70 | N | N | N | N | Y | | 25,550 |
| 332 | 52 | 80,000 | N | N | N | N | Y | | 4,160,000 |
| 333 | 52 | 2,000 | N | N | N | N | Y | | 104,000 |
| 334 | 52 | 79,000 | N | N | N | Y | Y | | 4,108,000 |
| 335 | 52 | 1,000 | N | N | N | N | Y | | 52,000 |
| 336 | 52 | 450 | N | N | N | N | Y | | 23,400 |
| 337 | 52 | 9,000 | N | N | N | N | Y | | 468,000 |
| 339 | 12 | 10,000 | N | N | N | N | Y | | 120,000 |
| 341 | 12 | 5,000 | N | N | N | Y | Y | | 60,000 |
| 342 | 12 | 6,000 | N | N | N | Y | Y | | 72,000 |
| 343 | 12 | 5,000 | N | N | N | Y | Y | | 60,000 |
| 345 | 12 | 6,000 | N | N | N | N | Y | | 72,000 |
| 348 | 12 | 6,000 | N | N | N | Y | Y | | 72,000 |
| 350 | 12 | 4,000 | N | N | N | N | Y | | 48,000 |
| 351 | 12 | 1,000 | N | N | N | N | Y | | 12,000 |
| 352 | 12 | 2,000 | N | N | N | N | Y | | 24,000 |
| 353 | 12 | 1,000 | N | N | N | N | Y | | 12,000 |
| 354 | 12 | 450 | N | N | N | N | Y | | 5,400 |
| 355 | 12 | 1,000 | N | N | N | N | Y | | 12,000 |
| 356 | 12 | 1,000 | N | N | N | N | Y | | 12,000 |
| 357 | 12 | 190 | N | N | N | N | Y | | 2,280 |
| 358 | 4 | 35,000 | N | N | N | N | Y | | 140,000 |
| 359 | 4 | 1,000 | N | N | N | N | Y | | 4,000 |
| 360 | 4 | 1,000 | N | N | N | N | Y | | 4,000 |
| AVG: | 56 | 18,739 | | | | | 128 | | TOTAL: 65,432,030 |
| Total 'Y': | | | 7 | 6 | 0 | 42 | 0 | | |
| Total 'N': | | | 76 | 103 | 106 | 67 | | | |

Total Pieces for Publications Not Predominantly Sacked

LB-3

| A | B | C | D | E | F | G | H | I | J |
|----------|-----------|-------------|-------------------|----------------|------------|--------------------|-----------------------|--------------|---------------------|
| Pub. No. | Frequency | Appx. Circ. | Palletized Alone? | Palletized Co- | Co-Mailed? | >25% Drop-Shipped? | Predominantly Sacked? | Printer Code | Total Annual Pieces |
| 1 | 12 | 200,000 | N | Y | Y | Y | N | A | 2,400,000 |
| 2 | 4 | 200,000 | N | Y | Y | Y | N | A | 800,000 |
| 9 | 12 | 52,000 | | N | Y | N | N | C | 624,000 |
| 11 | 12 | 36,000 | | Y | N | N | N | D | 432,000 |
| 12 | 12 | 25,000 | | Y | N | N | N | D | 300,000 |
| 13 | 12 | 129,000 | | Y | N | N | N | D | 1,548,000 |
| 14 | 12 | 126,000 | | Y | N | N | N | D | 1,512,000 |
| 15 | 10 | 91,000 | | Y | N | N | N | D | 910,000 |
| 16 | 12 | 14,000 | | Y | N | N | N | D | 168,000 |
| 17 | 6 | 30,000 | | Y | N | N | N | D | 180,000 |
| 18 | 12 | 19,000 | | Y | N | N | N | D | 228,000 |
| 19 | 12 | 40,000 | | Y | N | N | N | D | 480,000 |
| 20 | 24 | 119,000 | | Y | N | Y | N | E | 2,856,000 |
| 21 | 24 | 92,000 | | Y | N | Y | N | E | 2,208,000 |
| 22 | 24 | 40,000 | | Y | N | Y | N | E | 960,000 |
| 23 | 12 | 53,000 | | Y | N | Y | N | E | 636,000 |
| 24 | 12 | 16,000 | | Y | N | Y | N | E | 192,000 |
| 25 | 12 | 43,000 | | Y | N | Y | N | E | 516,000 |
| 26 | 12 | 10,000 | | Y | N | Y | N | E | 120,000 |
| 27 | 12 | 22,000 | | Y | Y | Y | N | C | 264,000 |
| 28 | 24 | 12,000 | | | Y | Y | N | C | 288,000 |
| 29 | 24 | 26,000 | | | Y | Y | N | C | 624,000 |
| 37 | 51 | 5,000 | | | Y | Y | N | H | 255,000 |
| 38 | 51 | 4,000 | | | Y | Y | N | I | 204,000 |
| 44 | 23 | 30,000 | | Y | | Y | N | C | 690,000 |
| 45 | 21 | 31,000 | | Y | | Y | N | K | 651,000 |
| 46 | 18 | 56,000 | | Y | | Y | N | C | 828,000 |
| 47 | 18 | 46,000 | | Y | | Y | N | K | 1,125,000 |
| 48 | 15 | 75,000 | | | | Y | N | K | 765,000 |
| 49 | 15 | 51,000 | | | Y | Y | N | K | 182,000 |
| 50 | 13 | 14,000 | | | Y | Y | N | C | 481,000 |
| 51 | 13 | 37,000 | | | | Y | N | K | 1,056,000 |
| 52 | 12 | 88,000 | | | | Y | N | C | 372,000 |
| 53 | 12 | 31,000 | | | | Y | N | C | |

Total Pieces for Publications Not Predominantly Sacked

LB-3

| A | B | C | D | E | F | G | H | I | J |
|----------|-----------|-------------|-------------------|----------------|------------|--------------------|-----------------------|--------------|---------------------|
| Pub. No. | Frequency | Appx. Circ. | Palletized Alone? | Co-Palletized? | Co-Mailed? | >25% Drop-Shipped? | Predominantly Sacked? | Printer Code | Total Annual Pieces |
| 54 | 12 | 22,000 | | Y | | Y | N | C | 264,000 |
| 57 | 12 | 52,000 | | Y | | Y | N | C | 624,000 |
| 58 | 12 | 27,000 | | Y | | Y | N | C | 324,000 |
| 59 | 12 | 16,000 | | Y | | Y | N | J | 192,000 |
| 60 | 12 | 24,000 | | Y | | Y | N | C | 288,000 |
| 62 | 12 | 26,000 | | Y | | Y | N | C | 312,000 |
| 63 | 11 | 39,000 | | | Y | Y | N | K | 429,000 |
| 65 | 10 | 19,000 | | | Y | Y | N | K | 190,000 |
| 66 | 9 | 31,000 | | Y | | Y | N | C | 279,000 |
| 70 | 9 | 65,000 | | Y | Y | Y | N | K | 585,000 |
| 71 | 9 | 45,000 | | | | Y | N | C | 405,000 |
| 72 | 7 | 26,000 | | | Y | Y | N | C | 182,000 |
| 73 | 4 | 8,000 | | | Y | Y | N | K | 32,000 |
| 74 | 6 | 35,000 | | | Y | Y | N | K | 210,000 |
| 75 | 12 | 36,000 | | | Y | Y | N | L | 432,000 |
| 76 | 3 | 8,000 | | | | Y | N | L | 24,000 |
| 77 | 1 | 8,000 | | Y | | Y | N | L | 8,000 |
| 78 | 12 | 83,000 | | Y | N | Y | N | N | 996,000 |
| 79 | 10 | 46,000 | | | N | Y | N | N | 460,000 |
| 80 | 12 | 56,000 | | | Y | Y | N | C | 672,000 |
| 81 | 12 | 40,000 | | | Y | Y | N | C | 480,000 |
| 82 | 12 | 22,000 | | | Y | Y | N | C | 264,000 |
| 83 | 12 | 17,000 | | | Y | Y | N | C | 204,000 |
| 84 | 6 | 13,000 | | | Y | Y | N | C | 78,000 |
| 85 | 12 | 6,000 | | | Y | Y | N | C | 72,000 |
| 91 | 12 | 200,000 | Y | N | N | Y | N | N | 2,400,000 |
| 92 | 48 | 66,000 | | Y | N | Y | N | E | 3,168,000 |
| 93 | 48 | 51,000 | | Y | N | Y | N | E | 2,448,000 |
| 94 | 12 | 20,000 | | N | Y | Y | N | E | 240,000 |
| 95 | 12 | 8,000 | | N | Y | Y | N | E | 96,000 |
| 96 | 26 | 5,000 | | Y | N | Y | N | E | 130,000 |
| 97 | 11 | 55,000 | | N | Y | Y | N | E | 605,000 |
| 98 | 13 | 59,000 | | N | Y | Y | N | E | 767,000 |
| 99 | 12 | 96,000 | | N | Y | Y | N | E | 1,152,000 |

Total Pieces for Publications Not Predominantly Sacked

LB-3

| A | B | C | D | E | F | G | H | I | J |
|----------|-----------|-------------|-------------------|----------------|------------|--------------------|-----------------------|--------------|---------------------|
| Pub. No. | Frequency | Appx. Circ. | Palletized Alone? | Co-Palletized? | Co-Mailed? | >25% Drop-Shipped? | Predominantly Sacked? | Printer Code | Total Annual Pieces |
| 100 | 12 | 15,000 | | N | Y | Y | N | E | 180,000 |
| 101 | 12 | 78,000 | | Y | | | N | D | 936,000 |
| 102 | 12 | 15,000 | Y | N | | | N | J | 180,000 |
| 103 | 12 | 10,000 | | Y | | | N | D | 120,000 |
| 104 | 12 | 49,000 | | Y | | | N | D | 588,000 |
| 105 | 12 | 51,000 | | Y | | | N | D | 612,000 |
| 106 | 12 | 51,000 | | Y | | | N | D | 612,000 |
| 107 | 12 | 36,000 | | Y | | | N | D | 432,000 |
| 108 | 12 | 65,000 | | Y | | | N | D | 780,000 |
| 109 | 24 | 123,000 | | Y | | | N | D | 2,952,000 |
| 110 | 12 | 44,000 | | Y | | | N | D | 528,000 |
| 111 | 6 | 5,000 | | Y | | | N | D | 30,000 |
| 112 | 12 | 13,000 | | Y | | | N | D | 156,000 |
| 114 | 6 | 5,000 | | Y | | | N | D | 30,000 |
| 115 | 12 | 65,000 | | Y | | | N | D | 780,000 |
| 116 | 6 | 19,000 | | Y | | | N | D | 114,000 |
| 118 | 12 | 45,000 | | Y | | | N | D | 540,000 |
| 119 | 12 | 168,000 | | Y | | | N | D | 2,016,000 |
| 120 | 12 | 21,000 | | Y | | | N | D | 252,000 |
| 121 | 12 | 46,000 | | Y | | | N | D | 552,000 |
| 122 | 12 | 75,000 | | Y | | | N | D | 900,000 |
| 123 | 24 | 148,000 | | Y | | | N | D | 3,552,000 |
| 124 | 12 | 65,000 | | Y | | | N | D | 780,000 |
| 126 | 12 | 30,000 | | Y | | | N | D | 360,000 |
| 127 | 12 | 27,000 | | Y | | | N | D | 324,000 |
| 128 | 12 | 59,000 | | Y | | | N | D | 708,000 |
| 129 | 12 | 17,000 | Y | N | | | N | D | 204,000 |
| 130 | 13 | 189,000 | | Y | | | N | D | 2,457,000 |
| 131 | 12 | 68,000 | | Y | | | N | D | 816,000 |
| 132 | 12 | 109,000 | | Y | | | N | D | 1,308,000 |
| 133 | 12 | 20,000 | | N | | | N | D | 240,000 |
| 134 | 12 | 38,000 | | Y | | | N | D | 456,000 |
| 135 | 12 | 73,000 | | Y | | | N | D | 876,000 |
| 142 | 9 | 35,000 | N | Y | N | Y | N | P | 315,000 |

Total Pieces for Publications Not Predominantly Sacked

LB-3

| A | B | C | D | E | F | G | H | I | J |
|----------|-----------|-------------|-------------------|----------------|------------|--------------------|-----------------------|--------------|---------------------|
| Pub. No. | Frequency | Appx. Circ. | Palletized Alone? | Co-Palletized? | Co-Mailed? | >25% Drop-Shipped? | Predominantly Sacked? | Printer Code | Total Annual Pieces |
| 143 | 12 | 20,000 | N | Y | N | Y | N | P | 240,000 |
| 144 | 12 | 21,000 | N | Y | N | Y | N | P | 252,000 |
| 145 | 6 | 23,000 | N | Y | N | Y | N | P | 138,000 |
| 146 | 12 | 103,000 | Y | Y | N | Y | N | P | 1,236,000 |
| 147 | 6 | 22,000 | Y | Y | N | Y | N | P | 132,000 |
| 148 | 12 | 49,000 | Y | Y | N | Y | N | P | 588,000 |
| 149 | 12 | 12,000 | N | Y | N | Y | N | P | 144,000 |
| 151 | 12 | 32,000 | N | Y | N | Y | N | P | 384,000 |
| 152 | 12 | 46,000 | Y | Y | N | Y | N | P | 552,000 |
| 153 | 12 | 17,000 | N | Y | N | Y | N | P | 204,000 |
| 154 | 12 | 31,000 | N | Y | N | Y | N | P | 372,000 |
| 155 | 12 | 15,000 | Y | Y | N | Y | N | P | 180,000 |
| 158 | 12 | 15,000 | Y | Y | N | Y | N | P | 180,000 |
| 159 | 12 | 20,000 | N | Y | N | Y | N | P | 240,000 |
| 160 | 12 | 53,000 | Y | Y | N | Y | N | P | 636,000 |
| 161 | 12 | 66,000 | Y | Y | N | Y | N | P | 792,000 |
| 162 | 7 | 18,000 | N | Y | N | Y | N | P | 126,000 |
| 163 | 12 | 30,000 | Y | Y | N | Y | N | P | 360,000 |
| 164 | 12 | 22,000 | Y | Y | N | Y | N | P | 264,000 |
| 165 | 10 | 30,000 | N | Y | N | Y | N | P | 300,000 |
| 166 | 12 | 21,000 | Y | Y | N | Y | N | P | 252,000 |
| 167 | 12 | 54,000 | Y | Y | N | Y | N | P | 648,000 |
| 169 | 12 | 52,000 | Y | Y | N | Y | N | D | 624,000 |
| 170 | 10 | 39,000 | Y | Y | N | Y | N | D | 390,000 |
| 171 | 9 | 16,000 | Y | Y | N | Y | N | D | 144,000 |
| 172 | 6 | 16,000 | Y | Y | N | Y | N | D | 96,000 |
| 173 | 12 | 22,000 | Y | Y | N | Y | N | D | 264,000 |
| 174 | 7 | 13,000 | Y | Y | N | Y | N | D | 91,000 |
| 175 | 9 | 14,000 | Y | Y | N | Y | N | D | 126,000 |
| 176 | 13 | 40,000 | Y | Y | Y | Y | N | D | 520,000 |
| 177 | 7 | 32,000 | Y | Y | Y | Y | N | D | 224,000 |
| 178 | 12 | 63,000 | Y | Y | Y | Y | N | D | 766,000 |
| 179 | 16 | 249,000 | Y | Y | N | Y | N | P | 3,984,000 |
| 183 | 9 | 30,000 | Y | Y | N | Y | N | P | 270,000 |

Total Pieces for Publications Not Predominantly Sacked

LB-3

| A | B | C | D | E | F | G | H | I | J |
|----------|-----------|-------------|-------------------|----------------|------------|--------------------|-----------------------|--------------|---------------------|
| Pub. No. | Frequency | Appx. Circ. | Palletized Alone? | Co-Palletized? | Co-Mailed? | >25% Drop-Shipped? | Predominantly Sacked? | Printer Code | Total Annual Pieces |
| 185 | 52 | 122,000 | Y | N | N | Y | N | P | 6,344,000 |
| 186 | 52 | 131,000 | Y | N | N | Y | N | P | 6,812,000 |
| 189 | 26 | 217,000 | Y | N | N | Y | N | A | 5,642,000 |
| 190 | 26 | 112,000 | Y | N | N | Y | N | A | 2,912,000 |
| 191 | 12 | 84,000 | Y | N | Y | Y | N | A | 1,008,000 |
| 192 | 12 | 65,000 | Y | N | Y | Y | N | A | 780,000 |
| 193 | 12 | 71,000 | Y | N | Y | Y | N | A | 852,000 |
| 194 | 52 | 445,000 | Y | N | Y | Y | N | A | 23,140,000 |
| 195 | 12 | 102,000 | Y | Y | | Y | N | P | 1,224,000 |
| 196 | 12 | 83,000 | Y | Y | | Y | N | P | 996,000 |
| 197 | 12 | 40,000 | Y | Y | | Y | N | P | 480,000 |
| 198 | 12 | 102,000 | Y | Y | | Y | N | P | 1,224,000 |
| 200 | 1 | 70,000 | | N | N | | N | C | 70,000 |
| 205 | 15 | 70,000 | | N | N | Y | N | C | 1,050,000 |
| 212 | 12 | 102,000 | | N | N | Y | N | N | 1,224,000 |
| 213 | 12 | 93,000 | | N | N | Y | N | N | 1,116,000 |
| 226 | 13 | 21,000 | | | Y | Y | N | E | 273,000 |
| 227 | 8 | 12,000 | | | Y | Y | N | E | 96,000 |
| 228 | 12 | 9,000 | | | Y | Y | N | E | 108,000 |
| 229 | 12 | 22,000 | | | Y | Y | N | E | 264,000 |
| 230 | 6 | 17,000 | | | Y | Y | N | E | 102,000 |
| 231 | 13 | 9,000 | | | Y | Y | N | E | 117,000 |
| 232 | 13 | 23,000 | | | Y | Y | N | E | 299,000 |
| 233 | 10 | 20,000 | | | Y | Y | N | E | 200,000 |
| 234 | 13 | 56,000 | | | Y | Y | N | E | 728,000 |
| 235 | 12 | 48,000 | | | Y | Y | N | E | 576,000 |
| 236 | 10 | 23,000 | | | Y | Y | N | E | 230,000 |
| 237 | 12 | 32,000 | | | Y | Y | N | E | 384,000 |
| 238 | 10 | 11,000 | | | Y | Y | N | E | 110,000 |
| 240 | 14 | 73,000 | Y | N | Y | Y | N | K | 1,022,000 |
| 241 | 12 | 47,000 | N | Y | N | Y | N | P | 564,000 |
| 242 | 12 | 16,000 | N | N | N | N | N | J | 192,000 |
| 246 | 13 | 50,000 | Y | N | Y | Y | N | K | 650,000 |
| 249 | 12 | 85,000 | N | Y | N | Y | N | P | 1,020,000 |

Total Pieces for Publications Not Predominantly Sacked

LB-3

| A | B | C | D | E | F | G | H | I | J |
|----------|-----------|-------------|-------------------|----------------|------------|--------------------|-----------------------|--------------|---------------------|
| Pub. No. | Frequency | Appx. Circ. | Palletized Alone? | Co-Palletized? | Co-Mailed? | >25% Drop-Shipped? | Predominantly Sacked? | Printer Code | Total Annual Pieces |
| 254 | 12 | 44,000 | N | N | Y | Y | N | K | 528,000 |
| 257 | 12 | 36,000 | N | N | Y | Y | N | K | 432,000 |
| 258 | 18 | 157,000 | Y | N | Y | Y | N | K | 2,826,000 |
| 262 | 12 | 48,000 | N | N | Y | Y | N | K | 576,000 |
| 263 | 15 | 108,000 | Y | Y | N | Y | N | P | 1,620,000 |
| 264 | 26 | 115,000 | Y | N | Y | Y | N | K | 2,990,000 |
| 265 | 12 | 22,000 | N | N | Y | Y | N | K | 264,000 |
| 266 | 12 | 38,000 | N | Y | N | Y | N | P | 456,000 |
| 268 | 12 | 74,000 | N | N | Y | Y | N | K | 888,000 |
| 269 | 13 | 33,000 | N | N | N | Y | N | J | 429,000 |
| 270 | 6 | 17,000 | N | N | Y | Y | N | K | 102,000 |
| 272 | 12 | 57,000 | N | N | Y | Y | N | K | 684,000 |
| 274 | 10 | 63,000 | N | N | N | N | N | J | 630,000 |
| 276 | 10 | 95,000 | N | Y | N | Y | N | J | 950,000 |
| 277 | 12 | 28,000 | N | N | Y | Y | N | K | 336,000 |
| 278 | 13 | 29,000 | N | N | N | Y | N | K | 377,000 |
| 279 | 12 | 73,000 | N | Y | Y | Y | N | P | 876,000 |
| 281 | 12 | 19,000 | N | N | N | N | N | J | 228,000 |
| 282 | 12 | 72,000 | N | N | Y | Y | N | K | 864,000 |
| 283 | 12 | 90,000 | Y | N | Y | Y | N | K | 1,080,000 |
| 284 | 13 | 66,000 | N | Y | N | Y | N | P | 858,000 |
| 288 | 6 | 63,000 | N | Y | N | Y | N | P | 378,000 |
| 289 | 13 | 81,000 | Y | N | N | Y | N | K | 1,053,000 |
| 292 | 14 | 128,000 | Y | N | N | Y | N | K | 1,792,000 |
| 294 | 12 | 36,000 | N | Y | N | Y | N | P | 432,000 |
| 295 | 12 | 102,000 | Y | Y | N | Y | N | P | 1,224,000 |
| 296 | 12 | 128,000 | Y | Y | N | Y | N | P | 1,536,000 |
| 298 | 12 | 95,000 | Y | N | Y | Y | N | K | 1,140,000 |
| 299 | 13 | 29,000 | N | Y | N | Y | N | P | 377,000 |
| 300 | 12 | 65,000 | Y | N | Y | Y | N | K | 780,000 |
| 301 | 9 | 71,000 | Y | Y | N | Y | N | P | 639,000 |
| 302 | 20 | 92,000 | Y | N | Y | Y | N | K | 1,840,000 |
| 304 | 12 | 70,000 | N | N | Y | Y | N | K | 840,000 |
| 305 | 24 | 156,000 | Y | N | Y | Y | N | K | 3,744,000 |

Total Pieces for Publications Not Predominantly Sacked

LB-3

| A | B | C | D | E | F | G | H | I | J |
|------------|-----------|-------------|-------------------|----------------|------------|--------------------|-----------------------|--------------|---------------------|
| Pub. No. | Frequency | Appx. Circ. | Palletized Alone? | Co-Palletized? | Co-Mailed? | >25% Drop-Shipped? | Predominantly Sacked? | Printer Code | Total Annual Pieces |
| 307 | 12 | 35,000 | N | Y | N | Y | N | P | 420,000 |
| 309 | 13 | 38,000 | N | N | Y | Y | N | K | 494,000 |
| 310 | 12 | 35,000 | N | N | N | N | N | J | 420,000 |
| 313 | 11 | 58,000 | N | N | Y | Y | N | K | 638,000 |
| 338 | 12 | 107,000 | Y | N | N | Y | N | | 1,284,000 |
| 340 | 12 | 36,000 | Y | N | N | Y | N | | 432,000 |
| 344 | 12 | 7,000 | N | Y | N | Y | N | | 84,000 |
| 346 | 12 | 6,000 | Y | N | N | Y | N | | 72,000 |
| 347 | 12 | 8,000 | N | Y | N | N | N | | 96,000 |
| 349 | 12 | 6,000 | Y | N | N | Y | N | | 72,000 |
| AVG: | 13 | 54,182 | | | | | | TOTAL: | 185,860,000 |
| Total 'Y': | | | 48 | 116 | 67 | 149 | 0 | | |
| Total 'N': | | | 43 | 56 | 82 | 16 | 185 | | |

Exhibit LB-4

...
 2les Get You!
 ices will be implementing
 or increase at the end of
 ill be hit the hardest in
 are receiving volume
 ing for approximately
 ment measures do

any annual savings
 your World Logistics
 signed to help its
 nts that long-run

program in the industry to
 nd nationwide
 orts, you won't need to
 a QWL co-mail pool.
 Collation Mailing
 ntry program with full
 our expediting program

Express Collation Mailing SystemSM

QWL has invested in the latest
 co-mail technology to reduce
 postage costs and improve overall
 postal distribution service for
 its customers.

QWL's Express Collation Mailing SystemSM

Dramatically reduces postal and distribution costs while
 maintaining exceptional quality of your final product.
 The benefits include:

- Get your mail out of sacks and onto pallets
- Achieve piece discounts for copies moved to pallets
- Improve presort
- Increase drop ship savings
- Optimize delivery time
- Enhance the quality of your magazines due to less handling



QWL's co-mail machines are filling up fast! Want to jump on the savings?

- Title must be Periodical (USPS)
- Must be on a CARS debit account with the USPS
- Must include address
- Initial order must be in a specific location as determined by QWL
- Must be within a trim size of 7.75" x 10.5" to 8.5" x 10.875"
- Must have presort files prepared by Quebecor World's Mail List Technologies group
- No version under 5,000 copies and no more than 4 versions
- Between 5,000 and 10,000 in quantity

Quality Control Throughout the Process!

Quebecor World has 19 years of proven success in co-mailing for its long-run publishers, using the
 same technology being utilized for the Express Collation Mailing SystemSM. Quality checks are in
 place throughout the process to ensure that the right address is assigned to the right magazine.
 A unique magazine title ID code is embedded into the address records upon conversion, enabling
 a quality check comparison at any moment dictated by automated controls. A sophisticated Radio
 Frequency bar code system places pallets of the proper magazine title at its respective pocket
 feeding station due to a matching bar code read requirement. The process follows a history of
 development toward distribution and bindery technology that assures a seamless workflow.





Quebecor World

Logistics

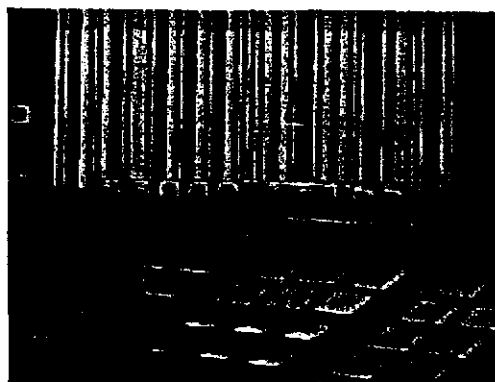
Issue #46, October 11, 2006

What's New In QW Mail List Technology?

"Our goal is to save our customers money on their data services while creating an integrated solution for both print and non-print customers." William Crotty

We save customers money with our unique services!

Unique QW MLT in-house services include 1) Co-mail sorting to bring like customers together in a single sort to save each one of them money, 2) Integrated mail planning, production and distribution, 3) Postage Rate Optimizer (PRO) to enhance carrier route level sorting, 4) Version Isolation Program (VIP) for selective runs of over 2.5 mm to save costs on selective binding, 5) Big Pockets to dynamically allocate records across multiple mail streams and multiple binding lines, and 6) High Density Carrier Route (HDCR) discounts that provide



dramatic postal savings to our customers.

"Flexibility and efficiency in the QW MLT process creates value and time saving for our customers." William Crotty

Continued on page 1

Co-Mail:

Ahead of The Pack In Volume and Growth

It has been a full year since the implementation of Express Collation Mailing System, QWL's short-run magazine co-mail service, and QWL has experienced continual growth in both pool volume and the number of titles participating. To date, we have had over 450 titles participate in ECMS.

QWL is now running up to four co-mail pools each week in Bolingbrook, IL to keep up with the growing popularity of the program. With the ability to run four pools per week, QWL is providing an opportunity for 120 titles/versions to co-mail every week; 60 different titles every Tuesday and 60 more titles every Friday.



In addition, we currently have 15 catalog customers participating in our weekly Catalog co-mail pool each Thursday. Any catalog mailing that of 400,000 pieces or less that meets the trim size requirements, and conforms to the ink jet addressing

Continued on the next page

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1 MR. STRAUS: Mr. Chairman, I failed to ask
2 the witness whether he had any corrections to his
3 testimony. He does, and those corrections are noted
4 on the copies handed to the reporter, and we will be
5 filing a final version of the testimony tomorrow.

6 BY MR. STRAUS:

7 Q Mr. Bradfield, what corrections do you have
8 to your testimony?

9 A There are five corrections all relating to
10 the transcripts where we entered a three-digit number
11 that should have had a one-zero in front of it. Page
12 3, Line 11, we referenced transcript 298. It should
13 be 10298. Five eighteen on the same page should be
14 10518. Page 7, Line 15, transcript 422 should be
15 10422. And page 8, line 8 has transcript 476 and 421.
16 That should be 10476 and 10421.

17 CHAIRMAN OMAS: Thank you.

18 MR. STRAUS: Mr. Chairman, I did notify
19 counsel for MPA of these corrections a couple of days
20 ago just to make sure he didn't waste too much time
21 looking at the wrong volume.

22 CHAIRMAN OMAS: All right. Thank you, Mr.
23 Straus.

24 This now brings us to oral cross-
25 examination. There has been one request for oral

1 cross. Mr. Levy, you may now begin.

2 MR. LEVY: Thank you, Mr. Chairman.

3 CROSS-EXAMINATION

4 BY MR. LEVY:

5 Q Mr. Bradfield, I'm David Levy, and I'll be
6 asking you questions for MPA and ANM. Would you go to
7 page 8 of your rebuttal testimony?

8 A Okay.

9 Q And on pages 8 to 9, you discuss the impact
10 of the MPA/ANM rate design on small publications, is
11 that correct?

12 A Yes.

13 Q And you also discuss the impact of the Time
14 Warner rate design?

15 A Yes.

16 Q And between the MPA and ANM rate design on
17 the one hand and the Time Warner rate design, which
18 one in your view has a bigger impact on small
19 publications?

20 A I think the Time Warner proposal hurts the
21 smaller publications more.

22 Q Thank you. Now your testimony doesn't
23 compare the MPA/ANM rate design with the Postal
24 Service rate design, does it?

25 A No, I don't think it does.

1 Q Well, why don't we do that now. If you
2 would turn to page 8, line 18 of your testimony.

3 A Okay.

4 Q And there you cite the response of MPA/ANM
5 Witness Glick to POIR-19, is that correct?

6 A Yes.

7 MR. STRAUS: Mr. Chairman, I would like to
8 have marked as MPA-X-3 a copy of that response. This
9 has already been transcribed into the record and
10 admitted into evidence at the transcript pages in the
11 upper right-hand corner, but I thought for clarity, it
12 would be useful to have it here again.

13 BY MR. STRAUS:

14 Q Would you go to page 10373, Mr. Bradfield?

15 A Okay.

16 Q And I direct your attention to the second
17 full paragraph that begins with the phrase, "Please
18 note...". Do you see that?

19 A Yes.

20 Q And I'm going to read the first sentence in
21 that paragraph. "Please note that despite the larger
22 incentive that the MPA/ANM proposal provides to
23 commingle and drop shift, the maximum rate increase
24 under the proposal, 22.6 percent, for a small
25 publication in this data set is much smaller than the

1 maximum increase under the USPS proposal, 43.7
2 percent." Do you see that?

3 A Yes.

4 Q Do you disagree with that?

5 A No, I don't.

6 Q The next sentence, "Also, the average rate
7 increases for small publications in the data set are
8 similar under the MPA/ANM and USPS proposals (16.5
9 percent under the MPA/ANM proposal versus 16.0 percent
10 under the USPS proposal), and both are less than five
11 percentage points above the subclass average
12 increase." Do you see that sentence?

13 A Yes, I do.

14 Q And do you disagree with that sentence?

15 A No, I don't.

16 Q Now would you go to page 10 of your rebuttal
17 testimony? And I direct your attention to the last
18 three lines of the page where it says, "My only
19 comment is to note..." Do you see that?

20 A Yes.

21 Q And you make the statement that the penalty
22 under the MPA and ANM proposal for mailers who cannot
23 repair periodical mailings on pallets appears to be
24 even larger than that proposed by the Postal Service.
25 Do you see that?

1 A Yes.

2 Q And then three pages from the transcript
3 follow?

4 A Correct.

5 Q Okay. And those are 10282 to 83 and 10289,
6 correct?

7 A Correct.

8 MR. STRAUS: I'd like to have marked as MPA-
9 X-4 those pages.

10 (The document referred to was
11 marked for identification as
12 Exhibit No. MPA-X-4.)

13 BY MR. LEVY:

14 Q Now, in MPA-X-4, would you go to the middle
15 page, Mr.
16 Bradfield, that's 10283.

17 A Okay.

18 Q This table shows the percentage rate
19 increases that would result from the MPA/ANM rate
20 design for the seven publications in this simulated
21 copalletization scenario. Is that correct?

22 A Yes.

23 Q And the highest rate increase for a solo
24 publication
25 is 19.2 percent?

1 A Correct.

2 Q Now would you go to page 2 of your rebuttal
3 testimony, and I direct your attention to the sentence
4 that begins on line 2, where it says, "We do however
5 urge the Commission to assure adequate protection from
6 destructive rate increases for the many publications
7 that cannot now and will not in the spring when the
8 new rates become effective be able to comail or
9 copalletize."

10 Do you see that?

11 A Yes.

12 Q Which rate increase do you regard as more
13 destructive in the sense in which you use that word; a
14 maximum rate increase
15 of 22.6 percent or a maximum rate increase of 43.7
16 percent?

17 A Common sense would say 40 is worse than 20.
18 The problem here is these are averages for everybody.
19 In the MPA proposal, we're very pleased with it does
20 for our comailed and copalleted titles, but those
21 titles that are forced to remain in sacks, and there
22 are many, would be hurt badly.

23 I don't have software to run all these
24 things; I can only look at the aggregate tests that we
25 ran at ABM.

1 Q Is it your understanding, going back to
2 Cross-examination Exhibit 3, that the percentage
3 increases are limited to publications that are on
4 pallets?

5 A I don't believe it's limited to that. I
6 don't know which one of these palletizes and doesn't
7 palletize. I just know in summary in looking at the
8 large, medium and small, and the low and high density
9 statistics that were done, those who are still in
10 sacks could be hurt worse. I don't have software to
11 run it on my titles.

12 Q Well, if the highest increase is 22.6
13 percent for any publication in the sample regardless
14 of whether it's entered on pallets or entered in
15 sacks, you know that the highest rate increase for
16 sacks in the sample can't be higher than 22.6 percent,
17 don't you?

18 A So if that math is true, then yes.

19 Q Thanks. Will you go to page 9 of your
20 testimony; rebuttal testimony. I direct your
21 attention to line 22. Now I want to ask about
22 incentives.

23 Beginning on line 22 of page 9 appears the
24 following sentence: "Great progress in comailing and
25 copalletizing has been accomplished and will be

1 accomplished with a level of incentives at or near the
2 level in today's rates." Did I read that right?

3 A Yes.

4 Q Now would increasing the level of incentives
5 have no effect on the rate of progress toward
6 comailing and copalletizing?

7 A In my opinion, logically if the incentives
8 were increased, then there probably be more, although
9 you would top out at a certain point, diminishing
10 returns. No matter how high you raised the rate, I
11 don't know any printer that will take less than five
12 thousand copies and comail. So if you offered me \$100
13 apiece to comail, I don't believe Banta Publications
14 would let me comail my 2,100 circulation gurus (ph).

15 Q Do you know if anyone has offered that price
16 to Banta?

17 A No. I just believe there's a point of
18 diminishing returns that says no matter what the
19 incentives are, the pockets are so expensive. I
20 comail on a machine at Frye with 35 pockets. If they
21 could afford to buy 35 more pockets and make money on
22 it, they'd have to extend the building to do it, which
23 is why they have the artificial low end limit to say
24 only so much per split.

25 Q If the incentives or the rate differential

1 for entering mail on pallets were increased, that
2 would, all other things being equal, increase the
3 willingness of publishers to pay --

4 A All things being equal, I think it would
5 take a very large increase to get more comailing for
6 splits under 5000. A lot more.

7 Q In a premarket though, if the willingness of
8 publishers to pay for comailing and copalletizing
9 increased, wouldn't printers become more interested in
10 buying more capacity? Including moving to bigger
11 buildings?

12 A If you could do it. The question is how
13 big can you get? And we're not interested in doing it
14 if we don't break even. We actually have some titles
15 we comail where we take a slight loss to be
16 consistent. We've identified quarterlies and six time
17 a year frequencies where four out of six issues save a
18 few bucks on comailing and some go negative \$50 or
19 \$100 after all costs.

20 We tell the printer, be consistent because
21 we don't want the subscribers mad at bad service. But
22 generally speaking, the threshold is we should save
23 money comailing and copalletizing, otherwise why do
24 it?

25 Q If the rate spread between mail entered in

1 sacks and mail entered on pallets widened, would that
2 change the tradeoff point for you?

3 A It would change the tradeoff point for us;
4 the question would be would someone have mechanical
5 ability to let us do it.

6 Q And having the mechanical ability would
7 entail investing in more capacity?

8 A Yes.

9 Q Now would you go to page 6 of your rebuttal
10 testimony, and beginning on line 13 you discuss
11 versioning and you state that dividing a publication
12 into multiple versions is equivalent to creating
13 multiple small publications out of one larger one.

14 A Yes.

15 Q Now when you decide how many versions to
16 create from a single title, I presume you balance the
17 expected benefits against the expected additional
18 costs?

19 A I would presume so, too. I don't have
20 access to those figures in my company.

21 Q But that would be a way a rational business
22 person would behave?

23 A That's true.

24 Q And the expected benefits would include the
25 perhaps editorial benefits?

1 A Editorial, yes that's one.

2 Q And also the prospect of gaining more
3 advertising revenue?

4 A That's another. One of our most common is
5 circulation cover tips to renew people or track new
6 subscribers. So that's also a third aspect. It's
7 kind of an internal --

8 Q And the benefits of that would be, hopefully
9 additional revenue as well.

10 A Exactly.

11 Q All other things being equal, the higher the
12 cost of creating additional versions, the fewer
13 versions you'll create?

14 A Pardon me?

15 Q All other things being equal, the higher the
16 cost of creating additional versions means the fewer
17 additional versions you'll create.

18 A That would be true.

19 Q Increasing the spread in postal rates
20 between palletize and sack mail would tend to increase
21 the cost of creating additional versions?

22 A Yes.

23 Q So increasing the rate spread between
24 palletize and sack mail will tend at the margin to
25 reduce the growth in the number of versions?

1 A It probably would, yes.

2 Q So that's an example of how mailers could
3 respond to the price incentives of the pallet spreads
4 by changing their behavior?

5 A Sure.

6 Q Now would you go to page 9 of your rebuttal
7 testimony. Beginning on line 21 you have a discussion
8 on capacity constraints. Do you see that?

9 A Yes.

10 Q And that's akin to the discussion we had a
11 few moments ago about your belief that capacity
12 constraints could impair the ability of printers to
13 respond to demand for more comailing?

14 A Yes.

15 Q Now would you go to page 7 of your
16 testimony, line 20.

17 A Okay.

18 Q And there you have a reference to Exhibit
19 LB-4, Astoria and Quebecor World about its comailing
20 450 titles. Do you see that?

21 A Yes.

22 Q By the way, I wonder if that's Exhibit LB-
23 5 -- if you'll look at the box at the bottom of it.

24 MR. STRAUS: Counsel is correct, and that's
25 my fault.

1 BY MR. LEVY:

2 Q Now going back to page 7 of your testimony;
3 the comailing of this 450 titles is done by Quebecor
4 at its plant in Bolingbrook, B-O-L-I-N-G brook,
5 Illinois, correct?

6 A Yes.

7 Q And you note in the lines that follow that
8 450 titles is a lot less than the number of
9 publications?

10 A Yes.

11 Q Now isn't it true that a few days after you
12 filed your testimony, Quebecor announced that it was
13 expanding its comailing capacity?

14 A I heard something of it, I don't know all
15 the details of it.

16 Q Do you know the amount of the expansion in
17 capacity?

18 A No, I don't.

19 MR. LEVY: I'd like to have marked as MPA
20 Cross-examination 5, a Quebecor press release.

21 (The document referred to was
22 marked for identification
23 as Exhibit No. MPA-X-5.)

24 MR. LEVY: And for the record, this is a
25 three page document that I downloaded from the

1 internet yesterday and it appears to be a Quebecor
2 press release dated November 15, 2006.

3 BY MR. LEVY:

4 Q Mr. Bradfield, if you'd take a look at that
5 and indicate whether this appears to be the
6 announcement that we were just discussing..

7 A Yes, it does.

8 Q Would you go to the third paragraph of the
9 story that begins with the word "Increasing."

10 A Yes.

11 Q Would you read that first sentence into the
12 record.

13 A "Increasing customer demand as well as
14 considerable additional interest as a result of
15 pending postal rate increases have accelerated QWL's
16 expansion plans," said their president, Brad Nathan.

17 Q And for the record, the acronym QWL stands
18 for?

19 A Quebecor World Logistics.

20 Q Thanks. Now will you go back to page 2 of
21 your rebuttal testimony. And on line 3 where you were
22 talking about adequate protection from destructive
23 rate increases. You don't dispute that publications
24 entered in sacks tend to cost the Postal Service more
25 to process than the same pieces entered on pallets.

1 A I don't dispute it, I'm not a rating expert.

2 Q But that's generally believed to be true?

3 A Yes.

4 Q Now suppose that it turned out that
5 providing what you call "adequate protection from
6 destructive rate increases" required charging postal
7 rates for sack publications; rates that didn't cover
8 the Postal Service's extra costs of handling that
9 mail. Would you still ask the Commission to temper
10 the rate increases for sack publications?

11 A Well, it's troubling, and we're talking
12 about periodicals here. You know, periodicals is not
13 just subject to rate base but also content-based, and,
14 you know, one could argue that other classes of mail
15 pay more than we do. So I think all periodicals catch
16 a break from the Postal Rate Commission since it was
17 founded and prior to them. I'm not well versed in who
18 ran the show before 1970, but we've had some
19 privileges for many, many years.

20 Q I understand you're not an expert in postal
21 rate-making.

22 A No.

23 Q So I'm not asking you about that, but I'm
24 asking you about just what you're asking the
25 Commission to do in this case. If the Commission

1 found that granting the additional relief that you're
2 asking for would require that the Postal Service
3 handle mail, periodicals and sacks, at rates that
4 didn't cover the cost of that, would you nonetheless
5 ask for the rate relief you're asking for in your
6 testimony?

7 A Personally for my company and I think for
8 most of ABM, I would. Outside the rate-making
9 criteria, you have the operations criteria, and we've
10 been some of the biggest whiners and complainers about
11 the fact that there is only a sack and a pallet, and
12 we've been begging for something in between. If that
13 something in between came up, then we'd cover our
14 costs, I believe.

15 Q And what would that something in between be?

16 A I'm thinking just the flat mail buckets that
17 are used now maybe on a bigger scale or something that
18 would hold 50 to 100 pounds without being handled and
19 thrown like a sack. We're in that limbo with more
20 than half our publications where we cannot get out of
21 sacks without comailing or copalletizing, but we're
22 weekly or tabloid, and nobody has a tabloid pool, and
23 nobody will even talking about a weekly pool. We've
24 asked. We have five weeklies that we offered to put
25 in the pool, and it wasn't enough to drive a pool.

1 Q Mr. Bradfield, that's not an unsympathetic
2 point, but if at the end of the day the Commission
3 looks around and says nobody proposed that in this
4 case and we have to choose between the proposals we
5 have before us, again, I repeat my question. Would
6 you ask for your sacks to be carried below cost if
7 that's what it took to give you the rate breaks you're
8 asking for?

9 A Yes. I think it would be a reverse
10 incentive for the Postal Service to develop the proper
11 equipment we need.

12 MR. LEVY: And one final line of questions.
13 Then I'm just going to ask to have some documents
14 identified. MPA cross-examination Exhibit 6.

15 (The document referred to was
16 marked for identification as
17 Exhibit No. MPA-X-6.)

18 Q Mr. Bradfield, would you take a look at
19 these documents and state what they appear to be?

20 A They appear to be downloads from our Web
21 site, our logo as of this week.

22 Q I'll represent that they are downloads from
23 your Web site at about two this morning, same day
24 service. The first page appears to be the home page
25 of VNU Business Media.

1 A Yes.

2 Q And the successive pages appear to be
3 descriptions of individual titles of periodicals --

4 A Correct.

5 Q -- that state information like the
6 subscription price and the circulation --

7 A Yes.

8 Q -- and the frequency of publication.

9 A Yes.

10 MR. LEVY: That's all I have, Mr. Chairman,
11 and with that, I would like to ask that Exhibits 3
12 through 6 be admitted into evidence and transcribed
13 into the record.

14 CHAIRMAN OMAS: Without objection, so
15 ordered.

16 (The documents referred to
17 were previously marked for
18 identification as Exhibit
19 Nos. MPA-X-3 through MPA-X-6
20 were received in evidence.)

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MPA-X-3

**RESPONSE OF MPA/ANM WITNESS GLICK TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 19**

Information Request

The United States Postal Service; Magazine Publishers of America, Inc. and Alliance of Nonprofit Mailers; and Time Warner Inc. are requested to provide the information described below to assist in developing a record for the consideration of the Postal Service's request for changes in rates and fees. In order to facilitate inclusion of the required material in the evidentiary record, participants are to have a witness attest to the accuracy of the answers and be prepared to explain to the extent necessary the basis for the answers at our hearing. Answers from the Post Service are to be provided by October 16, 2006. Answers from Magazine Publishers of America, Inc. and Alliance of Nonprofit Mailers; and Time Warner Inc. are to be provided by October 23, 2006.

In this proceeding Postal Service witness Tang, Time Warner witness Mitchell, and MPA-ANM witness Glick have made Outside County rate proposals. The Commission seeks to develop as complete a record as possible concerning each of these Outside County rate proposals.

During the August 10, 2006, hearing the Presiding Officer requested that witness Tang provide any additional information concerning small publications developed since the conclusion of Docket No. C2004-1.¹ On August 17, 2006, witness Tang responded to the request by providing percentage increases resulting from her Outside County rate proposals for each of the 251 periodicals in her C2004-1 database.² On September 6, 2006, MPA-ANM filed MPA/ANM-LR-3, witness Tang's C2004-1 database, under protective conditions established in Presiding Officer's Ruling No. R2006-1/51.³

On September 21, 2006, Time Warner requested that witness Tang update her C2004-1 database to include data since the inception of the 24-piece sack minimum and calculate the percentage changes resulting from her Outside County rate proposal

¹ Tr. 7/1883-87

² Response of United States Postal Service Witness Tang to Question Posed by Chairman Omas at the August 10, 2006 Hearing, August 17, 2006.

³ Notice of Alliance of Nonprofit Mailers and Magazine Publishers of America, Inc., of Filing of Library Reference MPA/ANM-LR-3, Protected Material, September 6, 2006.

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conditions, as MPA/ANM-LR-7. In both Table 1 and MPA/ANM-LR-7, each publication is labeled based upon its Docket No. C2004-1 ID and a unique publication ID that I have added. The additional ID is necessary because the Postal Service has given every "replaced" publication from C2004-1 the same ID, "RPL."

In response to a discovery request from McGraw-Hill (MH/MPA/ANM-T2-6), Table 1 and MPA/ANM-LR-7 also show the percentage rate change under the USPS proposal and per-piece postage under current rates, USPS-proposed rates, and MPA/ANM-proposed rates.

Please note that, despite the larger incentive that the MPA/ANM proposal provides to commingle and dropship, the maximum rate increase under the proposal (22.6%) for a small publication in this data set is much smaller than the maximum increase under the USPS proposal (43.7%). Also, the average rate increases for small publications in the data set are similar under the MPA/ANM and USPS proposals (16.5% under the MPA/ANM proposal vs. 16.0% under the USPS proposal) and both are less than five percentage points above the subclass average increase.

Further, USPS-LR-L-189 shows that comailing is a common practice for medium circulation publications – i.e., those with between 15,000 and 100,000 pieces per issue. In fact, 65 of the 100 medium publications in USPS-LR-L-189 are labeled as being comailed.

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| C2004-1 ID | Pub ID | Strata | Postage Per Piece | | | Percentage Increase | |
|------------|--------|--------|-------------------|---------|---------|---------------------|---------|
| | | | R2005-1 | USPS | MPA/ANM | USPS | MPA/ANM |
| RPL | 43 | LG HD | \$0.372 | \$0.420 | \$0.424 | 12.9% | 14.2% |
| L1 | 44 | LG HD | \$0.271 | \$0.299 | \$0.301 | 10.2% | 11.1% |
| M8 | 45 | LG HD | \$0.260 | \$0.284 | \$0.282 | 9.2% | 8.6% |
| P1HM100 | 46 | LG HD | \$0.916 | \$1.049 | \$1.055 | 14.5% | 15.1% |
| M20 | 47 | LG HD | \$0.246 | \$0.271 | \$0.263 | 9.8% | 6.8% |
| RPL | 48 | LG HD | \$0.217 | \$0.241 | \$0.238 | 11.1% | 10.0% |
| P1HL51 | 49 | LG HD | \$0.246 | \$0.276 | \$0.279 | 11.9% | 13.3% |
| M15 | 50 | LG HD | \$0.431 | \$0.485 | \$0.492 | 12.6% | 14.3% |
| RPL | 51 | LG LD | \$0.258 | \$0.285 | \$0.284 | 10.8% | 10.1% |
| RPL | 52 | LG LD | \$0.269 | \$0.296 | \$0.294 | 10.2% | 9.5% |
| P1HM98 | 53 | MD HD | \$0.456 | \$0.496 | \$0.496 | 8.8% | 8.7% |
| P1HM93 | 54 | MD HD | \$0.254 | \$0.279 | \$0.274 | 9.8% | 7.6% |
| P1HM70 | 55 | MD HD | \$0.552 | \$0.614 | \$0.618 | 11.4% | 12.0% |
| P1HM63 | 56 | MD HD | \$0.252 | \$0.279 | \$0.278 | 10.6% | 9.9% |
| P1HM77 | 57 | MD HD | \$0.297 | \$0.330 | \$0.337 | 11.1% | 13.4% |
| P1HL47 | 58 | MD HD | \$0.261 | \$0.286 | \$0.277 | 9.6% | 6.3% |
| P1LM21 | 59 | MD HD | \$0.386 | \$0.416 | \$0.410 | 7.6% | 6.3% |
| P1HM81 | 60 | MD HD | \$0.235 | \$0.265 | \$0.274 | 12.8% | 16.4% |
| P1HM97 | 61 | MD HD | \$0.258 | \$0.287 | \$0.285 | 11.1% | 10.2% |
| RPL | 62 | MD HD | \$0.412 | \$0.461 | \$0.461 | 11.9% | 12.0% |
| P1HM65 | 63 | MD HD | \$0.218 | \$0.247 | \$0.267 | 13.0% | 22.2% |
| RPL | 64 | MD HD | \$0.420 | \$0.452 | \$0.439 | 7.4% | 4.4% |
| M14 | 65 | MD HD | \$0.405 | \$0.453 | \$0.463 | 12.1% | 14.4% |
| RPL | 66 | MD HD | \$0.176 | \$0.200 | \$0.198 | 13.7% | 12.3% |
| RPL | 67 | MD HD | \$0.320 | \$0.352 | \$0.355 | 10.3% | 11.0% |
| P1HM61 | 68 | MD HD | \$0.197 | \$0.222 | \$0.219 | 12.6% | 10.9% |
| RPL | 69 | MD HD | \$0.215 | \$0.238 | \$0.240 | 10.4% | 11.4% |
| P1HM79 | 70 | MD HD | \$0.217 | \$0.245 | \$0.252 | 13.0% | 16.0% |
| RPL | 71 | MD HD | \$0.247 | \$0.272 | \$0.267 | 10.1% | 8.2% |
| P1LM55 | 72 | MD HD | \$0.229 | \$0.250 | \$0.248 | 9.0% | 8.1% |
| P1LM34 | 73 | MD HD | \$0.443 | \$0.491 | \$0.502 | 10.9% | 13.4% |
| P1HM71 | 74 | MD HD | \$0.557 | \$0.603 | \$0.600 | 8.3% | 7.7% |
| P1HM68 | 75 | MD HD | \$0.276 | \$0.309 | \$0.313 | 11.8% | 13.4% |
| M19 | 76 | MD HD | \$0.194 | \$0.211 | \$0.210 | 8.9% | 8.2% |
| P1HM88 | 77 | MD HD | \$0.203 | \$0.222 | \$0.221 | 9.4% | 8.9% |
| P1HM76 | 78 | MD HD | \$0.226 | \$0.250 | \$0.248 | 10.7% | 10.0% |
| M11 | 79 | MD HD | \$0.285 | \$0.316 | \$0.321 | 10.9% | 12.5% |
| M16 | 80 | MD HD | \$0.281 | \$0.313 | \$0.318 | 11.4% | 13.2% |
| RPL | 81 | MD HD | \$0.234 | \$0.261 | \$0.259 | 11.3% | 10.4% |
| P1HM92 | 82 | MD HD | \$0.229 | \$0.252 | \$0.251 | 10.0% | 9.6% |
| P1LM25 | 83 | MD HD | \$0.440 | \$0.472 | \$0.460 | 7.4% | 4.7% |
| RPL | 84 | MD HD | \$0.643 | \$0.732 | \$0.739 | 13.9% | 15.0% |
| P1HM96 | 85 | MD HD | \$0.283 | \$0.320 | \$0.331 | 12.9% | 16.9% |
| P1LM32 | 86 | MD HD | \$0.287 | \$0.318 | \$0.321 | 10.9% | 11.9% |
| M17 | 87 | MD HD | \$0.249 | \$0.272 | \$0.268 | 9.2% | 7.6% |

DOCKET NO. R2006-1
RESPONSE OF MPA/ANM WITNESS GLICK TO POIR 19
October 31, 2006

| C2004-1 ID | Pub ID | Strata | Postage Per Piece | | | Percentage Increase | |
|------------|--------|--------|-------------------|---------|---------|---------------------|---------|
| | | | R2005-1 | USPS | MPA/ANM | USPS | MPA/ANM |
| RPL | 133 | MD LD | \$0.231 | \$0.256 | \$0.255 | 10.6% | 10.2% |
| RPL | 134 | MD LD | \$0.326 | \$0.375 | \$0.389 | 15.2% | 19.5% |
| RPL | 135 | MD LD | \$0.276 | \$0.305 | \$0.303 | 10.6% | 9.9% |
| RPL | 136 | MD LD | \$0.182 | \$0.202 | \$0.202 | 10.7% | 10.9% |
| RPL | 137 | MD LD | \$0.270 | \$0.297 | \$0.296 | 10.1% | 10.0% |
| RPL | 138 | MD LD | \$0.475 | \$0.541 | \$0.551 | 13.9% | 16.1% |
| RPL | 139 | MD LD | \$0.254 | \$0.281 | \$0.277 | 10.6% | 8.7% |
| RPL | 140 | MD LD | \$0.230 | \$0.256 | \$0.254 | 11.2% | 10.3% |
| RPL | 141 | MD LD | \$0.269 | \$0.296 | \$0.294 | 10.2% | 9.5% |
| RPL | 142 | MD LD | \$0.267 | \$0.294 | \$0.293 | 9.9% | 9.5% |
| RPL | 143 | MD LD | \$0.226 | \$0.252 | \$0.251 | 11.9% | 11.2% |
| RPL | 144 | MD LD | \$0.247 | \$0.273 | \$0.268 | 10.4% | 8.5% |
| RPL | 145 | MD LD | \$0.245 | \$0.268 | \$0.262 | 9.4% | 7.1% |
| RPL | 146 | MD LD | \$0.237 | \$0.262 | \$0.261 | 10.6% | 10.1% |
| RPL | 147 | MD LD | \$0.222 | \$0.247 | \$0.245 | 11.3% | 10.2% |
| P1LM46 | 148 | MD LD | \$0.224 | \$0.243 | \$0.242 | 8.7% | 8.1% |
| RPL | 149 | MD LD | \$0.351 | \$0.385 | \$0.384 | 9.8% | 9.4% |
| RPL | 150 | MD LD | \$0.255 | \$0.282 | \$0.281 | 10.6% | 10.1% |
| RPL | 151 | MD LD | \$0.261 | \$0.287 | \$0.286 | 9.7% | 9.5% |
| RPL | 152 | MD LD | \$0.333 | \$0.381 | \$0.395 | 14.4% | 18.7% |
| P1HM95 | 153 | SM HD | \$0.246 | \$0.266 | \$0.262 | 8.1% | 6.4% |
| P1LM37 | 154 | SM HD | \$0.377 | \$0.437 | \$0.451 | 16.0% | 19.7% |
| P1LM59 | 155 | SM HD | \$0.421 | \$0.493 | \$0.501 | 17.0% | 19.0% |
| P1LM31 | 156 | SM LD | \$0.300 | \$0.357 | \$0.360 | 18.9% | 20.1% |
| P1LM52 | 157 | SM LD | \$0.409 | \$0.466 | \$0.483 | 13.9% | 17.8% |
| P1LM33 | 158 | SM LD | \$0.665 | \$0.753 | \$0.755 | 13.3% | 13.6% |
| QHS49 | 159 | SM HD | \$0.281 | \$0.313 | \$0.314 | 11.5% | 11.9% |
| QHS59 | 160 | SM HD | \$0.226 | \$0.253 | \$0.257 | 11.6% | 13.5% |
| QHS99 | 161 | SM HD | \$0.336 | \$0.388 | \$0.401 | 15.5% | 19.4% |
| QHS35 | 162 | SM HD | \$0.175 | \$0.199 | \$0.197 | 13.7% | 12.3% |
| QHS53 | 163 | SM HD | \$0.331 | \$0.383 | \$0.393 | 15.7% | 18.8% |
| QHS25 | 164 | SM HD | \$0.216 | \$0.241 | \$0.239 | 11.8% | 11.0% |
| QHS54 | 165 | SM HD | \$0.214 | \$0.242 | \$0.255 | 13.0% | 19.3% |
| QHS78 | 166 | SM HD | \$0.324 | \$0.379 | \$0.389 | 17.1% | 20.0% |
| QHS32 | 167 | SM HD | \$0.691 | \$0.800 | \$0.804 | 15.7% | 16.3% |
| S22 | 168 | SM HD | \$0.146 | \$0.164 | \$0.176 | 12.2% | 20.7% |
| QHS61 | 169 | SM HD | \$0.717 | \$0.837 | \$0.822 | 16.8% | 14.6% |
| QHS30 | 170 | SM HD | \$0.233 | \$0.267 | \$0.273 | 14.5% | 17.2% |
| QHS41 | 171 | SM HD | \$0.366 | \$0.443 | \$0.419 | 20.8% | 14.3% |
| QHS27 | 172 | SM HD | \$0.279 | \$0.323 | \$0.336 | 15.8% | 20.4% |
| QHS55 | 173 | SM HD | \$0.170 | \$0.192 | \$0.208 | 13.4% | 22.6% |
| QHS39 | 174 | SM HD | \$0.242 | \$0.273 | \$0.286 | 12.8% | 18.3% |
| QHS58 | 175 | SM HD | \$0.252 | \$0.286 | \$0.298 | 13.6% | 18.2% |
| S19 | 176 | SM HD | \$0.196 | \$0.225 | \$0.239 | 15.0% | 22.3% |
| QHS51 | 177 | SM HD | \$0.705 | \$0.797 | \$0.811 | 13.1% | 15.0% |

DOCKET NO. R2006-1
RESPONSE OF MPA/ANM WITNESS GLICK TO POIR 19
October 31, 2006

| C2004-1 ID | Pub ID | Strata | Postage Per Piece | | | Percentage Increase | |
|------------|--------|--------|-------------------|---------|---------|---------------------|---------|
| | | | R2005-1 | USPS | MPA/ANM | USPS | MPA/ANM |
| QHS85 | 223 | SM LD | \$0.309 | \$0.346 | \$0.350 | 12.1% | 13.4% |
| QHS69 | 224 | SM LD | \$0.457 | \$0.517 | \$0.531 | 13.1% | 16.4% |
| S8 | 225 | SM LD | \$0.337 | \$0.394 | \$0.403 | 16.8% | 19.4% |
| QHS73 | 226 | SM LD | \$0.297 | \$0.351 | \$0.359 | 18.1% | 20.6% |
| QHS84 | 227 | SM LD | \$0.395 | \$0.457 | \$0.470 | 15.7% | 18.8% |
| S5 | 228 | SM LD | \$0.773 | \$0.921 | \$0.894 | 19.1% | 15.6% |
| S6 | 229 | SM LD | \$0.519 | \$0.612 | \$0.616 | 17.9% | 18.6% |
| QHS79 | 230 | SM LD | \$0.355 | \$0.414 | \$0.424 | 16.9% | 19.6% |
| S7 | 231 | SM LD | \$0.257 | \$0.304 | \$0.313 | 18.5% | 22.0% |
| RPL | 232 | SM LD | \$0.314 | \$0.371 | \$0.378 | 17.9% | 20.3% |
| QHS81 | 233 | SM LD | \$0.588 | \$0.686 | \$0.678 | 16.7% | 15.2% |
| QHS95 | 234 | SM LD | \$0.593 | \$0.691 | \$0.683 | 16.6% | 15.2% |
| RPL | 235 | SM LD | \$0.255 | \$0.297 | \$0.306 | 16.6% | 19.9% |
| QHS100 | 236 | SM LD | \$0.307 | \$0.354 | \$0.349 | 15.5% | 13.8% |
| QHS68 | 237 | SM LD | \$0.353 | \$0.400 | \$0.403 | 13.3% | 14.2% |
| RPL | 238 | SM LD | \$0.520 | \$0.578 | \$0.587 | 11.1% | 12.9% |
| QHS82 | 239 | SM LD | \$0.369 | \$0.418 | \$0.421 | 13.3% | 14.1% |
| QHS70 | 240 | SM LD | \$0.353 | \$0.396 | \$0.402 | 12.4% | 14.1% |
| S3 | 241 | SM LD | \$0.382 | \$0.444 | \$0.437 | 16.1% | 14.3% |
| QHS89 | 242 | SM LD | \$0.547 | \$0.625 | \$0.624 | 14.3% | 14.0% |
| RPL | 243 | SM LD | \$0.634 | \$0.710 | \$0.716 | 12.1% | 13.0% |
| QHS52 | 244 | SM LD | \$0.388 | \$0.442 | \$0.445 | 13.9% | 14.7% |
| QHS87 | 245 | SM LD | \$0.354 | \$0.397 | \$0.404 | 12.1% | 14.2% |
| RPL | 246 | SM LD | \$0.455 | \$0.519 | \$0.516 | 14.0% | 13.3% |
| QHS43 | 247 | SM LD | \$0.400 | \$0.464 | \$0.459 | 16.1% | 14.7% |
| QHS93 | 248 | SM LD | \$0.362 | \$0.423 | \$0.415 | 17.0% | 14.6% |
| RPL | 249 | SM LD | \$0.367 | \$0.433 | \$0.421 | 17.9% | 14.8% |
| QHS92 | 250 | SM LD | \$0.416 | \$0.482 | \$0.474 | 15.9% | 14.1% |
| QHS64 | 251 | SM LD | \$0.422 | \$0.489 | \$0.484 | 16.0% | 14.6% |
| RPL | 252 | SM LD | \$0.438 | \$0.510 | \$0.497 | 16.5% | 13.5% |
| RPL | 253 | SM LD | \$0.243 | \$0.308 | \$0.297 | 26.8% | 22.5% |
| RPL | 254 | SM LD | \$0.439 | \$0.520 | \$0.498 | 18.6% | 13.4% |
| RPL | 255 | SM LD | \$0.517 | \$0.616 | \$0.585 | 19.2% | 13.1% |
| RPL | 256 | SM LD | \$0.496 | \$0.604 | \$0.562 | 21.7% | 13.2% |
| QHS98 | 257 | SM LD | \$0.593 | \$0.700 | \$0.677 | 18.1% | 14.3% |
| RPL | 258 | SM LD | \$0.453 | \$0.651 | \$0.514 | 43.7% | 13.5% |
| RPL | 259 | SM LD | \$0.313 | \$0.387 | \$0.358 | 23.5% | 14.4% |

MPA-X-4

**R2006-1
RESPONSE OF MPA/ANM WITNESS GLICK
TO ABM/MPA/ANM-T2-33**

thirds of the dropshipped pieces are entered at the DADC and the other one-third are entered at the DSCF. Below is a combined Table 2 and Table 3 for the Simulated Co-Pal scenario. As the combined table shows, the MPA/ANM proposal increases the incentives to co-palletize and dropship much more than does the USPS proposal.

I have also supplied a version of Table 2 for the MPA/ANM proposal. A comparison of the two tables shows that the MPA/ANM rate increase is smaller than the USPS rate increase for all of the publications under the "Co-palletization" scenario. Further, while the MPA/ANM proposal does produce larger increases than the USPS proposal for "solo" mailings, all of the increases for "solo" mailings are within 7.5 percentage points of the subclass average.

**Tables 2A and 3A
(Simulated Co-Palletization Scenario)**

| Publication | Number of Pieces/Issue | % Rate Increase (USPS) | | % Increase in Incentive | |
|-------------------------|------------------------|------------------------|-------|-------------------------|---------|
| | | Solo | Copal | USPS | MPA/ANM |
| Farm Collector | 38,036 | 11.6% | 13.2% | 2.0% | 20.1% |
| Gas Engine | 15,192 | 13.2% | 12.8% | 10.7% | 26.9% |
| Harper's | 155,472 | 10.6% | 11.1% | 6.5% | 32.7% |
| Herb Companion | 23,632 | 15.5% | 17.0% | 7.5% | 34.2% |
| Interweave Knits | 33,637 | 11.5% | 11.3% | 12.2% | 26.3% |
| Mother Earth News | 217,676 | 10.0% | 10.7% | 6.3% | 19.7% |
| Natural Home and Garden | 27,760 | 12.8% | 13.7% | 8.4% | 30.1% |

R2006-1
RESPONSE OF MPA/ANM WITNESS GLICK
TO ABM/MPA/ANM-T2-33

Table 2B
(MPA/ANM Rates for Simulated Co-Palletization Scenario)

| Publication | Number of Pieces/Issue | % Rate Increase (MPA/ANM) | |
|-------------------------|---------------------------|---------------------------|-------|
| | | Solo | Copal |
| Farm Collector | 38,036 | 13.8% | 12.7% |
| Gas Engine | 15,192 | 15.6% | 13.3% |
| Harper's | 155,472 | 12.9% | 10.2% |
| Herb Companion | 23,632 | 19.2% | 16.5% |
| Interweave Knits | 33,637 | 13.8% | 10.8% |
| Mother Earth News | 217,676 | 12.0% | 10.3% |
| Natural Home and Garden | 27,760 | 16.2% | 13.4% |

R2006-1
RESPONSE OF MPA/ANM WITNESS GLICK
TO ABM/MPA/ANM-T2-39

ABM/MPA/ANM-T2-39. With reference to your response to ABM/MPA/ANM-T2-8 and to tables 2 and 3 in your testimony, please respond to the following: For each publication in table 3, please state (i) what portion of the increased incentive results from the fact that MPA/ANM's proposal would produce lower rates than would that of the Postal Service for co-mailed and dropshipped pieces and (ii) what percentage results from the fact that MPA/ANM's proposal would assess higher postage charges on pieces mailed solo.

RESPONSE

| Publication | (i) | (ii) |
|-------------------------|-----|------|
| Farm Collector | 14% | 86% |
| Gas Engine | 18% | 82% |
| Harper's | 48% | 52% |
| Herb Companion | 7% | 93% |
| Interweave Knits | 25% | 75% |
| Mother Earth News | 16% | 84% |
| Natural Home and Garden | 6% | 94% |

MPA-X-5



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Press Releases

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November 15, 2006

Quebecor World's Logistics Group Enhances Customer Value by Expanding Co-Mail Offering by 50%

Montréal, Canada - Quebecor World Inc. (NYSE:IQW, TSX:IQW) is pleased to announce it is enhancing customer value by expanding its co-mail offering at its new Bolingbrook, IL, mailing facility by 50 percent through the purchase of an additional 30-pocket co-mail machine. The new machine, which is expected to come online in the first quarter of 2007, will create additional customer value by allowing even more magazine publishers and catalogers to reduce their postal costs and improve delivery.

Quebecor World's complete logistics services, including its co-mail offering, are an important component of the Company's Customer Value Initiative to provide customers with complete "before" and "after" print solutions, creating additional customer value to their quality print product. Quebecor World's Logistics Group, the industry leader in co-mailing, also operates a sophisticated co-mail, poly bag, and offline mailing facility in Trenton, TN

"Increasing customer demand, as well as considerable additional interest as a result of pending postal rate increases have accelerated QWL's expansion plans," says QWL President Brad Nathan. "The advancements to our co-mail platform will result in a significant increased offering as well as greater flexibility and faster access to our co-mail pools for magazine publishers, catalogers, and retailers. Our Express Collation Mailing SystemSM uniquely creates higher customer value as customers grow their volume with us. Our goal is to continue to provide the fastest and most flexible co-mail solution in the industry."

Earlier this year QWL's Express Collation Mailing SystemSM became the first in the industry to offer Standard catalog co-mail pools. Customers using QWL's co-mail solution in concert with QWL's additional mailing optimization programs consistently realize savings on their overall mailing costs. QWL's unmatched customer-focused co-mail service is creating higher customer value by proactively managing and mitigating the impact of the upcoming postal rate increase.

The 314,000 sq. ft. state-of-the-art Bolingbrook, IL facility pioneered

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the co-mailing of short-to-medium run magazines when it opened in 2005. Customers using the QWL's innovative co-mail system have been able to reduce their postage expenses while improving the delivery quality and predictability of their publications.

Quebecor World Logistics provides logistics and mail list services for Quebecor World and third party customers, managing distribution and mailing services for catalogs, direct mail, magazines (subscriber copies and newsstand), newspaper inserts, books and bulk printed products.

Forward-Looking Statements

This press release includes "forward-looking statements" that involve risks and uncertainties. All statements other than statements of historical facts included in this press release, including statements regarding the prospects of the industry and prospects, plans, financial position and business strategy of the Company, may constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and Canadian securities legislation and regulations. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "plan," "foresee," "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made have on the Company's business.

Investors and others are cautioned that undue reliance should not be placed on any forward-looking statements. For more information on the risks, uncertainties and assumptions that could cause the Company's results to differ from current expectations, please refer to the Company's public filings available at www.sedar.com, www.sec.gov and www.quebecorworld.com. In particular, further details and descriptions of these and other factors are disclosed in the "Risks and Uncertainties" section of the Company's Management's Discussion and Analysis for the year ended December 31, 2005, and the "Risk Factors" section of the Company's Annual Information Form for the year ended December 31, 2005.

The forward-looking statements in this press release reflect the Company's expectations as of November 15, 2006 and are subject to change after this date. The Company expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by the applicable securities laws.

The Company

Quebecor World Inc. (NYSE:IQW, TSX:IQW) is a world leader in providing high-value, complete print solutions to leading publishers, retailers, catalogers and other businesses with marketing and advertising activities. It is a market leader in most of its major product categories which include magazines, inserts and circulars, books, catalogs, direct mail, directories, digital pre-media, logistics, mail list technologies and other value added services. Quebecor World has approximately 29,000 employees working in more than 120 printing and related facilities in the United States, Canada, Argentina, Austria, Belgium, Brazil, Chile, Colombia, Finland, France, India, Mexico, Peru, Spain, Sweden, Switzerland and the United Kingdom.

Web address: www.quebecorworld.com


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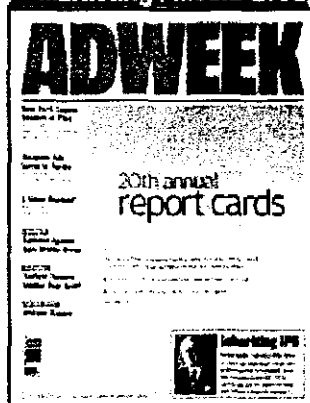
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The complete source of industry news and information—local, national and global—for advertising executives.

Adweek's weekly print edition and regional web sites provide comprehensive local, national and international coverage of the advertising industry. The weekly print edition reports the inside stories on client-agency relationships, new campaigns and successful strategies in advertising. Annual specials include the coveted Agency of the Year awards and the feared Agency Report Card issue. Updated hourly, Adweek online provides breaking news, creative coverage and special reports from industry events.

Frequency: Weekly

Circulation: 27,003

Cover price: \$3.95; \$149/year domestic, \$199/year Canada, \$319/year foreign

Subscriptions: 800.562.2706

Advertising Information: Wright Ferguson, Executive Vice President, Adweek Magazines, 646.654.5105

Conference Information: Mary Beth Johnston, Vice President/Marketing, 646.654.5126

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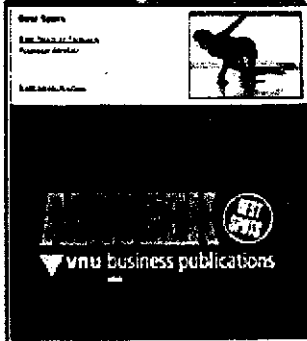
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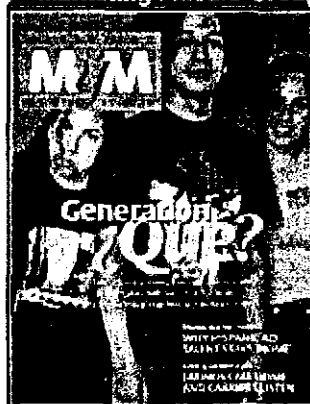
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Frequency: Monthly

Circulation: 18,000

Cover price: \$5.95; \$49/year domestic; \$79/year Canada; \$99/year foreign

Subscriptions: 800.562.2706

Advertising Information: Michael Hatherill, Publisher, Marketing y Medios, 646.654.7501

Conference Information: Mary Beth Johnston, Vice President/Marketing, 646.654.5126

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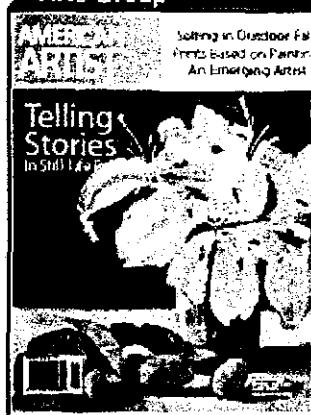
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The most respected magazine for artists in the world.

A consumer magazine about realist artists and their work, it is edited for those interested in how artists work, their knowledge of fine art and their techniques. The magazine contains a balanced coverage of oil, watercolor, and acrylic painting, drawing and printmaking.

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Frequency: Monthly

Circulation: 52,118

Cover price: \$3.95; \$29.95/year

Subscriptions: 800.562.2706 US / 818.487.4582 Outside US,

americanartist@espcomp.com

Advertising Information: Jackie Leigh, Assistant Publisher,
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Bulletin d'Information efficiently supports suppliers of the watch and micro-mechanics branches by directly informing all watch manufacturers. It is distributed to watch and jewellery manufacturers in Switzerland and neighbouring countries.

Frequency: 7 times a year

Circulation: 1300 per issue (2500 for the Baselshow issue)

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Back Stage/Back Stage West

The bibles of performing artists on both coasts.

These performing-arts weeklies serve the performer in the theater, film and TV industries, providing the most up-to-date news, reviews and casting information. Readers include actors, singers, dancers, directors, playwrights and craftspeople. Editorial coverage focuses on industry news, service features and theater/dance reviews. Column topics include various aspects of the business (cabaret, comedy, playwriting, dinner theater), advice (income tax, auditioning) and regional theater.

Frequency: Weekly

Circulation: *Back Stage*: 36,000 readers; *Back Stage West*: 24,000 readers; Online (www.backstage.com): 20,000 subscribers

Cover price: *Back Stage*, \$2.95 in NY, CT, NJ; \$3.25 elsewhere; annual sub: \$95/year.

Cover price: *Back Stage West*, \$2.75 in CA, \$3.25 elsewhere; annual sub: \$89/year.

Subscriptions and customer service: 800-562-2706 or 818-487-4582
Advertising Information: Steve Elish, VP/Group Publisher, 646.654.5727

Website | Subscribe: *Back Stage* | Subscribe: *Back Stage West* | Film & Performing Arts Group



Film & Performing Arts Group

Film Group

Performing Arts Group

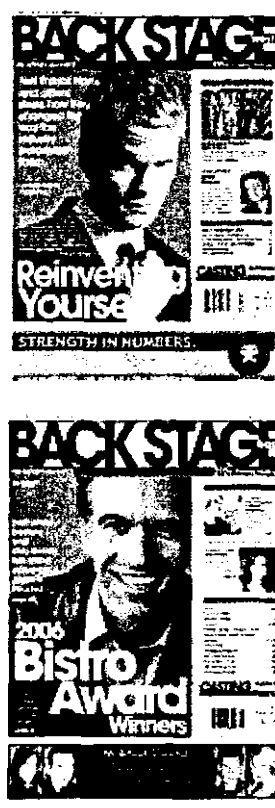
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Performing Arts Group



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Cover price: *Back Stage West*, \$2.75 in CA, \$3.25 elsewhere; annual sub: \$89/year.

Subscriptions and customer service: 800-562-2706 or 818-487-4582
Advertising Information: Steve Elish, VP/Group Publisher, 646.654.5727

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Music & Literary Group**Music Group****Billboard**

The most recognized and widely cited brand name in B2B publishing.

Billboard magazine is the international newsweekly for the music, video and digital entertainment industries. The magazine reports on the artists, events, music, marketing and new media developments that impact the sales of a wide range of audio and video products, including CDs, records, tapes, recording equipment, accessories, home video products, ancillary merchandise and services. Other editorial—including analysis and features—focuses on the news affecting retail, programming, music sites, publishing and licensing activities. Charts reflect radio airplay and retail sales.

Frequency: Weekly

Circulation: 32,323

Cover price: \$6.95; \$299/year; \$275/year 5 to 9 subs.; \$269/year 10+ subs.

Subscriptions: 800.745.8922 (U.S.); 815.734.1244 (foreign)

Group Sales 646.654.5863 Customer Service: 800.745.8922 (U.S.); 815.734.1244 (foreign)

Advertising Information: J. Gregory Maffei, Executive Dir./Integrated Sales & Business Development - 323-525-2110 - gmaffei@billboard.com

Billboard also publishes *Billboard Bulletin*, an electronic daily providing news to the international music industry. Designed in newsletter format, *Bulletin* offers brief reports on news of interest to senior executives and entrepreneurs involved in all aspects of the music industry.

Online or fax: <http://www.billboardbulletin.com>

Circulation: 1,600

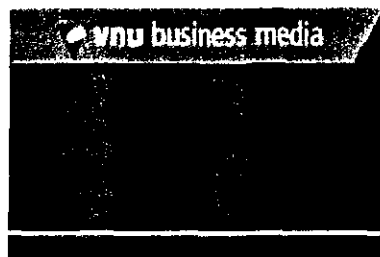
Price: \$675/year domestic; £495 in U.K. and Europe; \$895 in Asia/other

Subscriptions: 646.654.586

Advertising Information: Gene Smith, Associate

Publisher/International, 646.654.4616

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Marketing / Media & Arts Group
Marketing / Media Group

Brandweek

The only newsweekly dedicated solely to the needs and concerns of America's marketing community.

Brandweek is the leading source of news and information in the U.S. marketing industry, offering reports on new spending, promotions and marketing services in major consumer products and services categories. Its readers are comprised of corporate marketing executives and their agency and media partners, who are responsible for planning and executing campaigns reaching millions of consumers. *Brandweek* monitors marketing strategies in all major product categories and gives its busy readers valuable competitive information and insights.

Frequency: 46x a year

Circulation: 21,977

Cover price: \$3.95; \$149/year domestic, \$199/year Canada, \$319/year foreign

Subscriptions: 800.562.2706

Advertising Information: Thomas Woerner, Publisher, 646.654.5383

Conference Information: Mary Beth Johnston, Vice

President/Marketing, 646.654.5126

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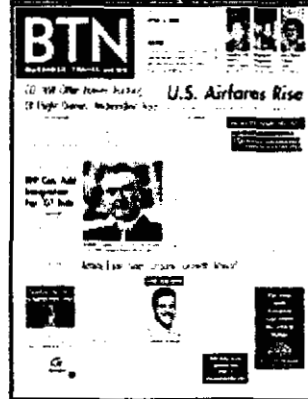
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Business Travel News

The newspaper for the corporate travel buyer.

BTN focuses on the corporate business travel market with news, "how-to" features and trend stories for corporate and travel agency personnel who are involved in business travel and meeting planning. *Business Travel News* provides readers with today's insight in business travel and offers reference/ resource manuals such as The Corporate Travel Index, Corporate Travel Black Book, Automation Directory, The Official Business Travel Buyer's Handbook, Corporate Travel 100, and the Annual Business Travel survey.

Frequency: 26x yearly

Circulation: 54,800

Cover Price: \$10.00

Subscriptions: 847.763.9050

Advertising Information: Anthony Carnevale, Associate Publisher,
646.654.4452Website | Subscribe | Travel/Real Estate and Design/Performance
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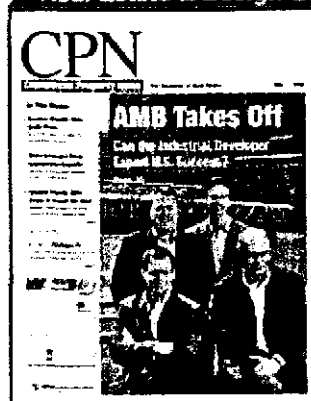
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Real Estate & Design Group



Commercial Property News

The essential resource for investors, builders, developers, owners and managers of commercial property.

Commercial Property News is a twice-monthly, news driven magazine written for senior level executives in the commercial real estate market, including brokers, developers, investors, lenders, property managers, owners, and corporate real estate executives. In addition to the magazine, *CPN* provides daily news updates by email and on our website www.cpnonline.com. *CPN* also publishes two annual reference guides on specific real estate sectors and produces a series of local and national networking conferences for the commercial real estate industry.

Frequency: Semi-monthly

Circulation: 31,500

Cover Price: \$10.00

Subscriptions: 847.763.9050

Advertising Information: Patrick Brennan, Publisher, Tel: 646-654-

4570 Email: pbrennan@cpngroup.com

Conference Information: Cynthia Claravall, Conference Director, Tel:

646-654-4583 Email cclaravall@vnubuspubs.com

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Contract

The industry's vital resource for commercial and institutional design.

Contract is dedicated to the timely documentation of the commercial design industry, with a special focus on how interior design and architecture can positively impact the corporate, retail, educational, hospitality, healthcare, government and institutional markets.

Contract examines how the goals of commercial clients can be supported and advanced through design. The publication also explores trends in various industries and how they continue to shape and influence the current and future practice of commercial interior design. The emphasis is on design's role in a changing society.

Frequency: Monthly

Circulation: 30,000

Cover Price: \$10.00

Subscriptions: 847.763.9050

Advertising Information: John Rouse, 312-583-5544

Conference Information: Melissa Hearn, Conference Director,
646.654.4483Website | Subscribe | Travel/Real Estate and Design/Performance
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Retail Group**Retail Channels Group****Convenience Store News***The whole story, the whole industry.*

Convenience Store News is targeted to convenience store and petroleum chain headquarters executives, division and field management, and store-level managers, owners of independent c-stores, and distributors and suppliers. The magazine combines late breaking news, features, executive interviews and original retail and consumer research. Special issues include Industry Forecast Study, Corporate Profiles, Industry Report Parts I, II & III, Competitive Watch, Technology Handbook, NACS Show Issue and New Product Showcase.

Frequency: 15x a year.

Circulation: 77,360

Cover Price: \$10.00

Subscriptions: 847.763.9050

Advertising Information: Scott Seltz, 646-654-4534

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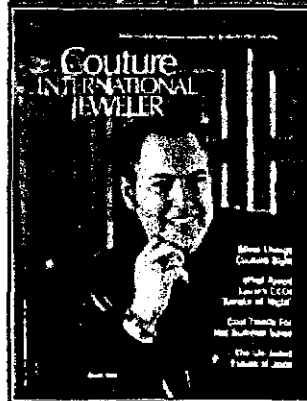
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Couture International Jeweler

The only luxury jewelry magazine endorsed by the Couture Jewellery Collection's Conference.

Couture International Jeweler is the industry's premier source for news and information on the prestige jewelry market. Written by an international team located in major jewelry design centers across the United States and Europe, Couture International Jeweler is the only domestic magazine that explores and analyzes jewelry trends on a global scale.

Frequency: Bi-monthly

Circulation: 20,000

Cover Price: USA: \$60/year, International \$105/year

Subscriptions: 847.763.9050

Advertising Information: Debra De Roo Ballard, Publisher,
646.654.4946

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Retail Group**Retail Design / Apparel Group****Display & Design Ideas**

The monthly publication offering trend information and design solutions for retail store designers, store planners and visual merchandisers.

DDI/DISPLAY & DESIGN IDEAS is edited to help retailers maximize sales through effective store design and visual presentation. The magazine focuses on design strategies, new products and global trends and shares success stories across all retail sectors by communicating the value of successful store design among top retail executives. DDI focuses on cutting edge technology and product application for store design.

Frequency: Monthly.

Circulation: 21,500

Cover Price: \$10.00

Subscriptions: 847.647.7987

Advertising Information: Michael R. Uliss, Associate Publisher 770-291-5617 or muliss@ddimagazine.com

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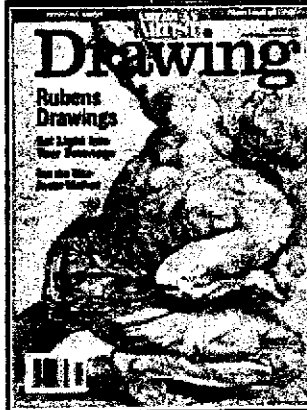
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Drawing

American Artist: Drawing provides working artists with information and inspiration regarding the foundation of all art: drawing.

DRAWING magazine is published quarterly by *American Artist* and is now available by subscription. *DRAWING* examines the best in contemporary and historical works on paper, with useful features and expert advice on drawing as both a preliminary step in the creation of other art and as finished work in its own right.

Frequency: Quarterly

Circulation: 7,200

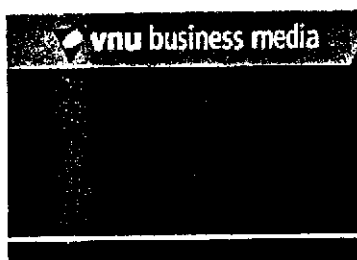
Cover price: \$3.95; \$29.95/year

Subscriptions: 800.562.2706 US / 818.487.4582 Outside US,

americanartist@espcomp.com

Advertising Information: Jacki Leigh, Associate Publisher, 323.525.2215

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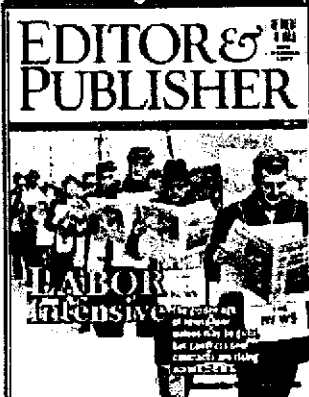
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Marketing / Media Group



Editor & Publisher

The bible of the newspaper industry, published since 1884.

Editor & Publisher covers all facets of the newspaper business and is regarded as the most important and trusted publication in the industry. It features the latest news and analysis concerning the newsroom, advertising, circulation, corporate and technical issues, the online and the vendor community.

Frequency: 13x a year

Circulation: 14,586

Cover price: \$5.95; \$99/year domestic; \$320/foreign

Subscriptions: 800.562.2706

Advertising Information: Charles Mckeown, 646.654.5120

Conference Information: Mary Beth Johnston, Vice President/Marketing, 646.654.5126

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Retail Group**Retail Design / Apparel Group****EMB (Embroidery/Monogram Business Magazine)**

The information and product resource for embroidery professionals.

Embroidery/Monogram Business magazine is dedicated to helping professional embroiderers achieve business success. In addition to presenting breaking news and reporting on trends in the embroidery world, each issue provides authoritative and insightful information on managing for profitability, finding new markets, sourcing the latest products, using equipment and supplies and developing embroidery skills.

Our content is designed to provide ideas that will help maximize return on investment. This includes a compelling mixture of up-to-date industry news, original market research, new product information and authoritative articles on topics to help operate a successful business, such as management and marketing strategy, equipment operation and maintenance, and embroidery and digitization technique.

Frequency: 13x a year

Circulation: 24,000

Cover Price: \$10.00

Subscriptions: 847.647.7987

Advertising Information: Gerard Delaney, Publisher, 770-291-5538 or gdelaney@embmag.com

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Retail Group**Jewelry Group****Eurotec****European Technical News Magazine**

Eurotec is distributed to company decision-makers with articles and reports printed in French, German and English. This publication covers precision engineering, machine-tool industry, equipment and ancillary sectors, mass production companies, metal processing companies, plastics technology and industrial electronics.

Frequency: Bi-monthly.

Circulation: 11,000

Cover Price: Europe CHF 80/year - International CHF 95/year

Subscriptions: 41.22.307.7854

Advertising Information: Karl Wurzberger, Director, 41.22.307.7858

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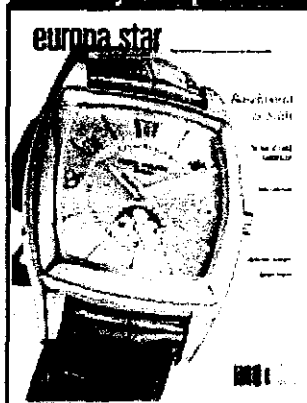
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Reprints**Retail Group****Jewelry Group****Europa Star Europe****International Watch Trade Magazine**

Covering the European markets: - retailers, distributors, manufacturers. Special reports, inquiries, and analyses—examine topics from production to distribution, including new ideas, marketing and communication. The latest products and collections, brand development, the state of the markets, the newest trends. Letters from our correspondents come directly from the various markets. Special supplements are dedicated to key markets as well as those with strong potential for the watch industry. It is an essential tool for affirming and increasing your presence and image with the best European retailers in the regions where you want to develop your brand. In Switzerland, it is also sold to the public in selected stores.

Frequency: 6 times a year- English

Circulation: 10000 per issue

Subscription price: Europe CHF 80/year, +41 22 307 78 37

Advertising Information: Philippe Maillard, Managing Director,
+41.22.307.7837Help desk: jricher@europastar.com

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Europa Star China

Complementary magazine and website communicate with the market that has the strongest watch buying potential in the coming years. The large format magazine, *Europa Star China*, is the promotional tool for the internet site, www.watches-for-china.com, on which all your important information is communicated concerning your brand, on an international level as well as on the specific Chinese market. The site and the magazine, in traditional Chinese, targets all trade professionals who work in the development of this huge market, whether based in Hong Kong, Singapore, Taiwan or mainland China.

Frequency: 6 times a year - traditional Chinese
 Circulation: 3000 per issue + website 12'000 UV/Month
 Helpdesk: webmaster@watches-for-china.com
 Advertising Information: Philippe Maillard, Managing Director,
 +41.22.307.7837

Website | Retail Group




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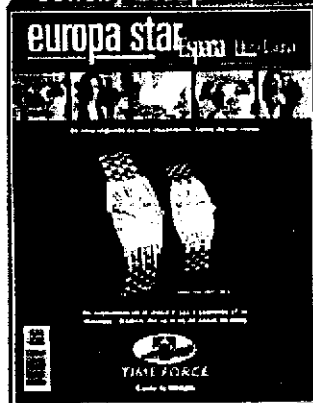
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Retail Group**Jewelry Group****Europa Star España**

Special edition for Spain: - distributed to the trade as well as sold to the public in selected stores. Publishes the main articles of the Europe and International editions, but translated into the Spanish language. Provides news and market information. *Europa Star España* is published six times a year.

Frequency: 6 times a year - Spanish

Circulation: 5000 per issue

Subscription: contact +34 93 416 13 20

Advertising Information: Philippe Maillard, Managing Director, +41.22.307.7837

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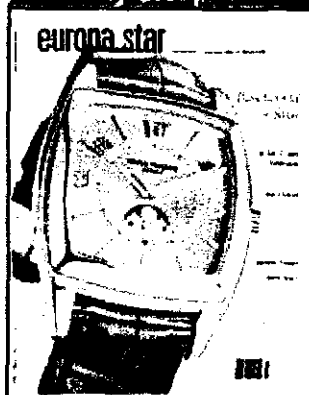
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Retail Group**Jewelry Group****Europa Star International**

Global coverage to distributors in the principal international markets and key retailers in each market, Swiss and international editorial coverage and reporting direct from the world's largest capitals. Geographical supplements that are adapted to evolutions in the world watch scene. Your advertising campaign in this edition confirms your international status and prepares the terrain for opening or developing your target markets.

Frequency: 6 times a year - English

Circulation: 10000 per issue

Subscription price: International CHF 140/year, +41 22 307 78 37

Advertising Information: Philippe Maillard, Managing Director, +41.22.307.7837

helpdesk:jricher@europastar.com

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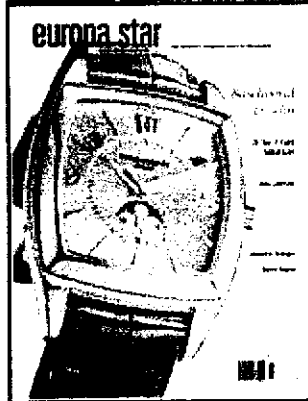
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Retail Group**Jewelry Group****Europa Star USA & Canada**

Based on the same concept as Europa Star publication for China, the special USA & Canada edition provides the world watch news to the global North American distribution network through print and e-media. The edition brings the Swiss and international perspective of the major watch brands to the world's largest single market. The US edition coupled with europastar.com is a must read for all professional retailers and watch distributors in North America.

Frequency: 6 times per year - English

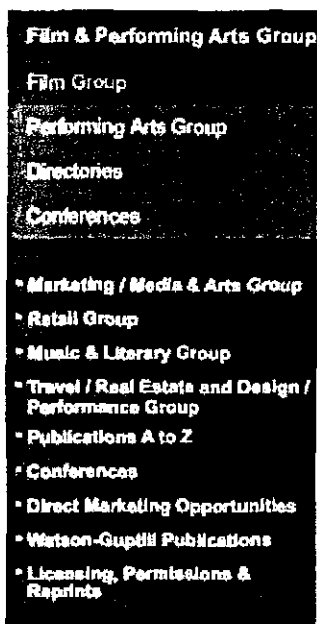
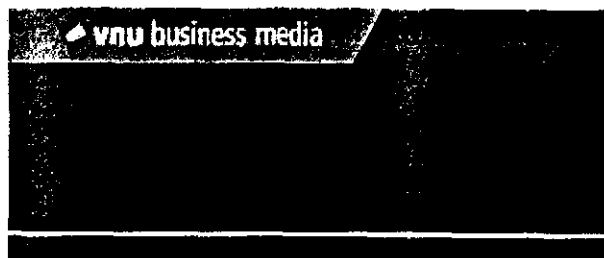
Circulation: 30000 per issue + 150000 UV/year in North America

Subscriptions: + 41 22 307 78 37

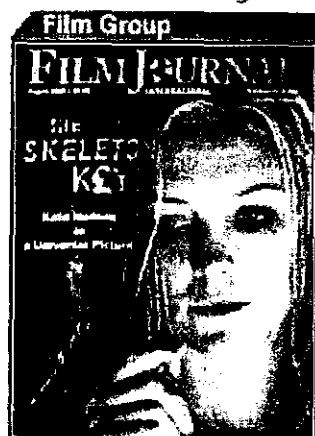
Advertising Information: Philippe Maillard, Managing Director, + 41 22 307 78 37

Helpdesk: jricher@europastar.com

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Film & Performing Arts Group



Film Journal International

Film Journal International is a monthly trade magazine geared to the interests of the motion picture exhibition industry. It includes reviews of nearly all the major and independent film releases; profiles of filmmakers and industry executives; articles on industry trends and new technologies, construction and design, theatre sound, equipment and concessions, and *film industry and production news*. The magazine also publishes annual guides to distribution, exhibition, and equipment and concession companies, and a comprehensive annual listing of films in production and development. *Film Journal International* was founded in 1934.

Frequency: Monthly

Circulation: 3,100

Annual sub price: \$65/yr U.S.; \$120/yr international

Subscriptions: 800-562-2706 or 818-487-4582

Advertising Information: Andrew Sunshine, Advertising Director, 646-654-7684

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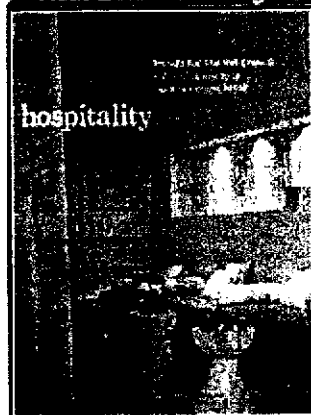
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Real Estate & Design Group



Hospitality Design

The leading trade magazine serving the field of hospitality design.

Hospitality Design has served as the premier design publication in the hospitality industry, including hotels, resorts, restaurants, casinos, cruise ships, spas, timeshares, and senior living facilities for 26 years. By featuring the accomplishments of established and up-and-coming designers, we set out to teach and inspire our readers, both in the design community and owner-operators, by delivering news, commentary, and trends.

Frequency: 9 x a year.

Circulation: 30,000

Cover Price: \$10.00

Subscriptions: 847.763.90501

Advertising Information: Michelle Finn, Vice President of HD Group,

Telephone: 312-583-5607 or email mfinn@hdmag.com

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Retail Channels Group

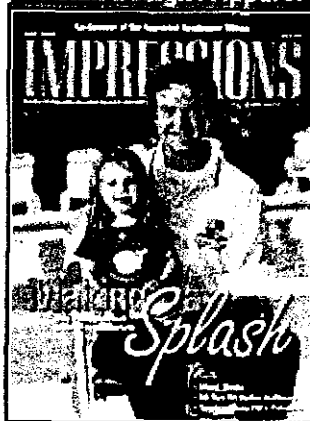
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Retail Group**Retail Design / Apparel Group****Impressions**

Serving the expansive decorated apparel and imprinted products industries.

Serving the expansive decorated apparel and imprinted products industries. *Impressions* provides features, technical guidance, business, management and product information to the decorated apparel market including textile screen printers, embroidery and monogram specialists, advertising specialty and promotional product buyers, and sportswear retailers.

Frequency: 15 x a year.

Circulation: 40,000

Cover Price: \$10.00

Subscriptions: 847.647.7987

Advertising Information: Gerard Delaney, Publisher, 770-291-5538 or gdelaney@impressionsmag.com

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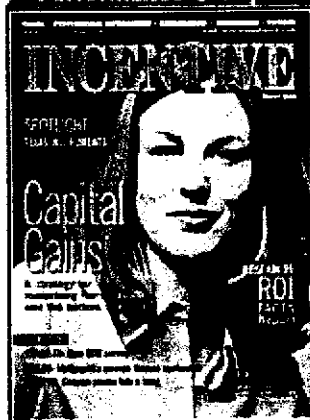
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Incentive

Devoted to creating a better understanding of motivation and performance improvement.

Incentive serves a wide variety of industries by addressing concerns of managers who specify premiums and/or incentives, including merchandise and travel, as part of their sales and marketing motivation programs. Each issue contains proven practical ideas and strategies that have helped companies run successful incentive programs and increase sales, productivity, quality and employee satisfaction.

Frequency: Monthly.

Circulation: 40,050

Cover Price: \$10.00

Subscriptions: 847.763.9050

Advertising Information: Jackie Augustine, 646.654.7284

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Info Express

Presentations and Training magazine's *Info Express* is a bi-annual publication providing information on companies, products, services and other resources serving the presentation and training industries. Managers and end-users find solutions to their training and presentation challenges through the information provided in *Info Express*.

Frequency: Bi-annually

Circulation: 35,000

Cover Price: \$10.00

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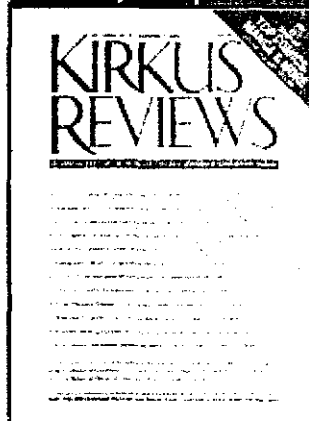
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Music & Literary Group

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Kirkus Reviews

World-renowned pre-publication reviews of general trade books published each year.

Kirkus Reviews previews (two to three months before publication) over 5,000 books each year, including adult fiction and nonfiction hardcovers and trade paperbacks, as well as children's and young adult titles. The evaluations cover mainstream publishers as well as university and small presses, and are written by specialists selected for their knowledge and expertise in their particular field. *Kirkus's* aim is simply to provide the best *tough-minded but fair and balanced* evaluations that we can. Librarians, booksellers, book publishers, and the Hollywood film community read *Kirkus*. Since publication began in 1933, *Kirkus* has brought to the attention of the reading public countless books that we know today to be the classics of American literature.

Frequency: Bi-monthly

Price: Libraries, from \$145 to \$430; booksellers: \$269; all others, \$435.

Circulation: 3,000

Subscriptions: 646.654.5865

Information: Jerome Kramer, Managing Director, #646-654-4701

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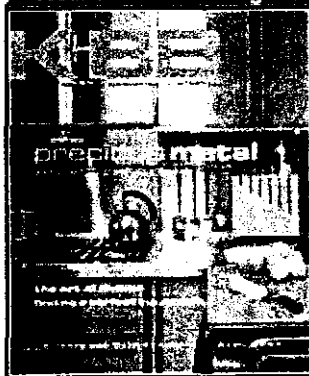
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Kitchen and Bath Business

K+BB, the Leading Trade Magazine Connecting the Kitchen & Bath Professional to Their Consumer.

Combining the core tenants of the kitchen & bath industry, design, innovation and lifestyle, *K+BB* is the kitchen and bath professional's essential resource for the knowledge, skills, concepts and tactics they need to effectively communicate and collaborate with the entire project team - including the consumer, the newest member of that team.

Frequency: Monthly
Circulation: 50,051

Cover price: \$10; \$79/year domestic, \$94/year Canada and Mexico, \$142/year foreign

Subscriptions: 847.763.9050

Advertising Information: Lyle C. R. Landon, publisher, Telephone: 646-654-4405 or email llandon@vnubuspubs.com

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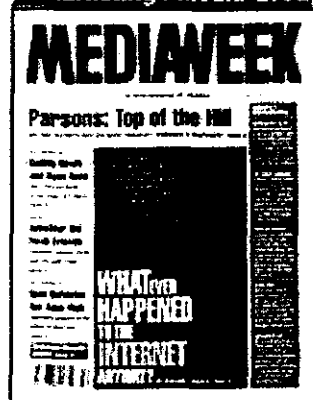
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Marketing / Media & Arts Group**Marketing / Media Group****Mediaweek**

Targeting media decision makers at ad agencies, media-buying services and client media departments, as well as the content and ad-sales executives at media companies—the news magazine of the media.

Mediaweek's highly targeted circulation covers the media decision-makers at the top 350 ad agencies and all top media buying services and client media departments in the United States. It's also widely read by content and ad-sales decision-makers across all the major media companies. Mediaweek focuses on the content of all media: consumer magazines, television, out-of-home, radio, new media, newspapers, etc. Its editors are attuned to the new realities of supply and demand, content and pricing in the media business today. Mediaweek's lively coverage and its expert (and sometimes irreverent) columnists reflect the emerging new media culture, programming environment, and the editorial dynamics of our times.

Frequency: Weekly

Circulation: 19,080

Cover price: \$3.95; \$149/year domestic, \$199/year Canada, \$310/year foreign

Subscriptions: 800.562.2706

Advertising Information: Geri FitzGerald, Publisher, 646.654.5115

Conference Information: Mary Beth Johnston, Vice President, Marketing, 646.654.5126

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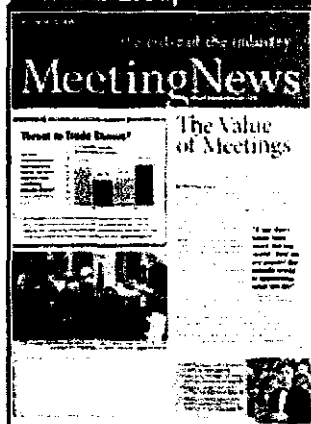
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Travel Group



Meeting News

Meeting News is the only national newspaper for meeting, convention, incentive travel and trade show professionals. *Meeting News* covers breaking news, industry trends, new products and services, industry technology, and meeting venues and destinations. Special supplements include The Meeting Planners' Handbook, The Meeting Planners' Guide to Technology and the Regional Meeting Guides.

Frequency: 18x yearly

Circulation: 60,100

Cover Price: \$10.00

Subscriptions: 847.763.9050

Advertising Information: Louis Magliaro, VP Sales, 646.654.7321

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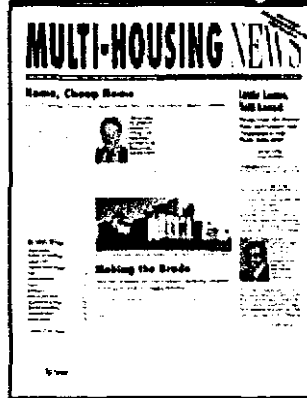
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Real Estate & Design Group



Multi-Housing News

The leading magazine for builders, owners, investors and managers of multi-housing properties.

Multi-Housing News provides news and trend stories and practical feature articles for builders, owners, developers, investors, renovators, property management executives, asset managers, REIT's of multi-family housing, financial services, architects, designers and engineers.

Frequency: Monthly.

Circulation: 26,476

Cover Price: \$10.00

Subscriptions: 847.763.9050

Advertising Information: Patrick Brennan, Publisher, Tel: 646-654-4570 Email: pbrennan@cpngroup.com

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Retail Channels Group

Jewelry Group

Retail Design / Apparel Group

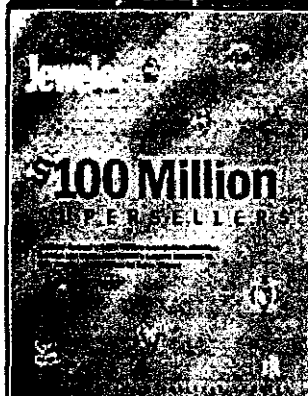
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Retail Group

Jewelry Group



National Jeweler

The industry's only genuine "news analysis magazine."

National Jeweler, founded in 1906, is the leading provider of news of relevance to the North American fine jewelry trade. *National Jeweler* is unique within its media category for its tabloid format and semi-monthly news coverage. With an emphasis on providing news analysis to retail jewelers, the magazine reaches key professionals in the jewelry business.

Frequency: Semi-Monthly.

Circulation: 30,200

Cover Price: \$10.00

Subscriptions: 847.763.9050

Advertising Information: Philip Ripperger, Publisher, 646.654.4920

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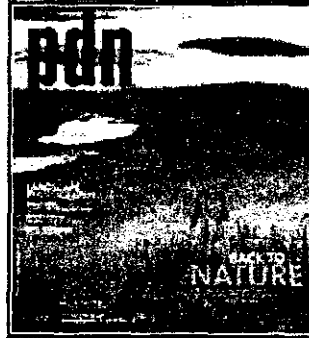
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Marketing / Media & Arts Group

Arts Group



PDN (Photo District News)

Award-winning resource for professional photographers.

PDN is edited for professional photographers and the creatives who work with photography. Particular emphasis is placed on the business aspects of advertising, corporate, editorial, fine-art and stock photography, including legal developments, business practices, new markets and visual trends, new product introductions and the up-to-date information readers need to succeed in commercial photography. PDN and PDN Online (updated weekly) regularly feature profiles of photographers, information on art directors and designers, and coverage of industry trends. PDN also features a new monthly section CREATE which covers all the uses of photography from conception to execution. Special features during the year include the May Photo Annual, PIX Digital Imaging Contest, PDN/Nikon Self-Promotion Awards and our newest contest: Top Knots- The New School of Wedding Photography, which will appear in our July Wedding issue.

Frequency: Monthly

Cover price: \$7.99; \$65/one year domestic; \$105/one year

Canadian; \$125/one year Foreign

Subscriptions: 800.562.2706 or 818.487.4582

Circulation: 20,000

Advertising Information, Lauren Wendle, Publisher, 646-654-5811

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Performance Group



Potentials

Providing the latest and hottest ideas and products to motivate people to take action, change behavior and enhance performance.

Potentials magazine is a unique editorial environment where corporate end users can learn the tactics behind effective motivation and can find the latest trends, new and innovative products, and quality resources that will help them implement successful incentive programs.

Frequency: Monthly

Circulation: 45,000

Cover Price: \$10.00

Subscriptions: 847.763.9050

Advertising Information: Jackie Augustine, 646.654.7284

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Retail Channels Group

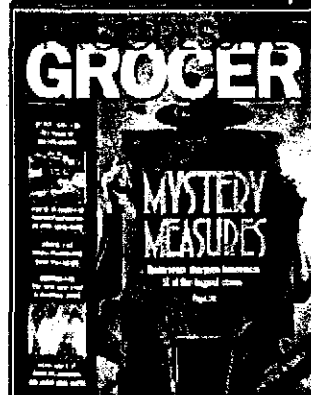
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Retail Group**Retail Channels Group****Progressive Grocer***Keeping retailers ahead of what's next.*

Progressive Grocer serves the \$412 billion supermarket industry. For over 80 years, *Progressive Grocer* has been the voice of the food retail industry. Serving the largest audience in the market, *Progressive Grocer's* readers are top management at headquarters and top decision makers at store level. From chain supermarkets, to independent supermarkets, super centers, wholesalers and food brokers, readers rely on *Progressive Grocer* for its authoritative, comprehensive, relevant and research-based editorial and news. By anticipating, reporting and interpreting important data and trends, *Progressive Grocer* fulfills its mission: keeping retailers ahead of what's next.

Frequency: 18 x a year.

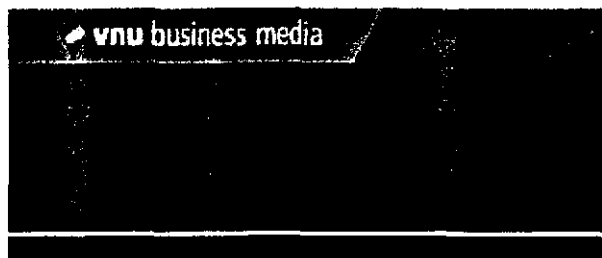
Circulation: 42,920

Cover Price: \$10.00

Subscriptions: 646.654.7258

Advertising Information: Judith Princz, Publisher, 646.654.7461

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Music & Literary Group

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Music & Literary Group



Radio and Records

The voice, the beacon and the pulse of radio.

The New Radio & Records is the ultimate source for the radio & record industries. It includes industry standard airplay charts from Nielsen BDS for every major format, top news stories, sales & marketing innovations, business trends and programming concepts. 1 year \$325 (51 issues). Paid subscription includes complete online access and the bi-annual R&R directory with market-by-market ratings.

Frequency: Weekly

Circulation: 6,000

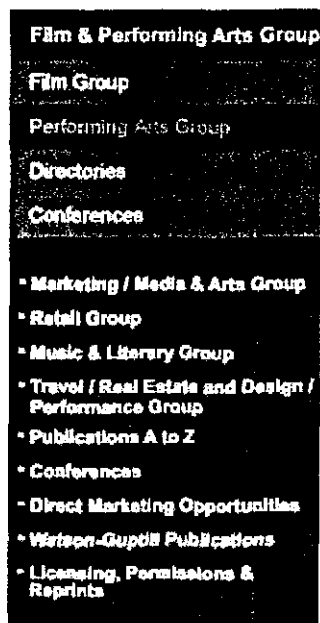
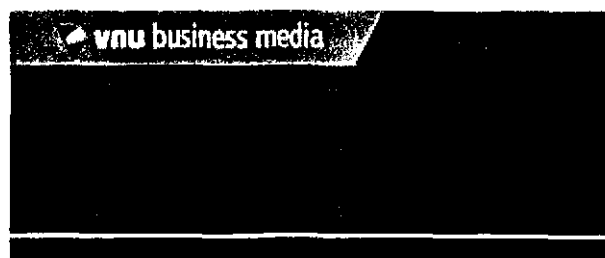
Cover price: \$6.50; \$325 a year, includes bi-annual R&R directory

Subscriptions: 800.562.2706 or 818.487.4582

Advertising Information: Erica Farber- (310) 788-1616 -

efarber@radioandrecords.com

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Film & Performing Arts Group



Ross Reports Television & Film

The most complete bicoastal source of Talent Agents and Casting Directors.

Ross Reports, the sister publication of *Back Stage* and *Back Stage West*, is the definitive pocket guide to the television and film industry. With new and updated listings every other month, this directory provides the names, addresses and phone numbers of casting directors, agents, network prime-time programs, daytime dramatic series, television and network producers/packageers and films in development in both New York and Los Angeles. In addition to the bi-monthly issue, Ross Reports also publishes four annual directories: Film Casting; TV Commercial Casting; USA Talent Directory and Modeling for Commercial, Print, Television & Film.

Frequency: Bi-Monthly

Circulation: 13,545

Cover price: \$9.95; \$65/year

Subscriptions: 800-562-2706 or 818-487-4582

Circulation: 13,545

Advertising Information, Scott Berg, Publisher, 646.654.5728

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Sales & Marketing Management

Provides senior sales and marketing executives with the information they need to stay ahead of their competition, and to manage and motivate their staffs more effectively.

Sales & Marketing Management is the award-winning professional business magazine that serves the needs of top executives who have direct responsibility for all aspects of sales, marketing and management—including strategic development, training and staffing, customer relationship management technology, eBusiness development, motivational programs, compensation, meetings and business travel. Articles contain success stories, case studies, sales and marketing strategies, and winning tactics from inside the world's most successful companies.

Frequency: Monthly

Circulation: 65,000

Cover Price: \$4.95 Annual Rate: \$48 (domestic rate)

Subscriptions: 800.821.6897

Advertising Information: Geraldine Fitzgerald, Publisher,
646.654.7601

Sales and Marketing Management now offers a new combined Print and Online Subscription Product.

To subscribe to a Sales and Marketing Management combined Print and Online Subscription, log onto www.salesandmarketing.com or call 800-821-6897. Rate for PRINT/ONLINE combo subscription offer stays at the same low rate of \$48.00 (domestic rate).

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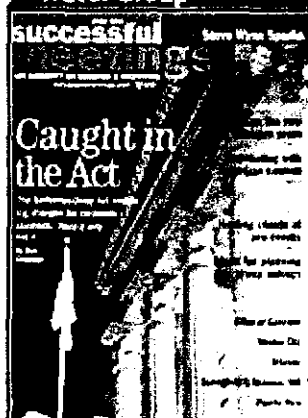
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Travel Group

Successful Meetings

Edited for meeting planners across all industries, *Successful Meetings* aims to educate, inform and inspire those who create business meetings by providing effective insights into planning off-site programs such as corporate meetings, association conventions and incentive travel programs. It covers innovative ways to motivate attendees, ideas and techniques to get better results from meetings and ways to help evaluate meeting facilities and destinations to get the most value for the money. An annual directory is produced in April as a 13th issue.

Frequency: Monthly.

Circulation: 72,050

Cover Price: \$10.00

Subscriptions: 847.763.9050

Advertising Information: Louis Magliaro, VP Sales, 646.654.7321

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Music & Literary Group

Literary Group



The Bookseller

The seminal trade magazine in the English language book publishing business.

The Bookseller is the newsweekly for the UK and international book industry. Celebrating its 145th anniversary this year, *The Bookseller* is read avidly by publishers, booksellers, librarians, authors, agents, rights specialists and industry suppliers, observers and enthusiasts across 100 different countries. We deliver authoritative, independent, actionable market and business intelligence to help our readers sell more books, more profitably.

Frequency: Weekly

Circulation: 10,000

Cover price: £149/year in U.K., £257 elsewhere

Subscriptions: 011.44.207.420.6000

Advertising Information: Jon McGowan, Associate Publisher

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Retail Channels Group

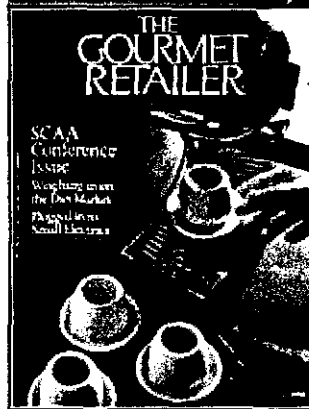
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Retail Group**Retail Channels Group****The Gourmet Retailer**

The upscale product magazine serving all distribution channels.

The Gourmet Retailer is targeted to owners, operators, executives, and managers of gourmet and specialty food and kitchenware stores, coffee stores, department stores, natural food stores and upscale supermarkets. It features news, national and international sourcing of specialty foods and innovative housewares, consumer trends, new product ideas, creative merchandising and proper education of store personnel for successful specialty retailing.

Frequency: Monthly

Circulation: 25,367

Cover Price: \$10.00

Subscriptions: 847.763.9050

Advertising Information: Ed Loeb, 305.446.3388 x. 112

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Film & Performing Arts Group

Film Group



The Hollywood Reporter

The most respected and in-depth coverage of the entertainment business.

The Hollywood Reporter provides news, feature coverage and analysis on all aspects of the entertainment industry. It's required daily reading and "fuel for thought" for producers, directors, actors and other industry professionals at motion picture studios, independent production companies and television networks. Regular features include box-office grosses, television ratings, comprehensive film and TV production charts, columns and reviews. Tuesday's international edition puts special focus on entertainment business developments around the world. Over 130 special issues are published each year on specific topics affecting the industry.

Frequency: Daily except Saturday, Sunday and holidays
Circulation: Daily: 24,145; Weekly: 38,082. Source: ABC Statement for period ending March 31, 2004.

Cover price: \$2.99 daily; weekly \$5.99; Daily Print Sub: \$229 U.S.; Weekly Print Sub: \$175 U.S.; Daily Print/Online Combination Sub: \$299 U.S.; Weekly Print/Online Combination Sub: \$265 U.S.
Subscriptions or for rates outside the U.S.: 866.525.2150 or 323.525.2150

Advertising Information: Lynne Segall, Associate Publisher, 323.525.2022

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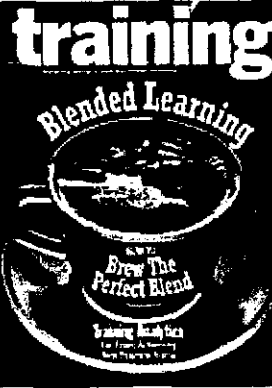
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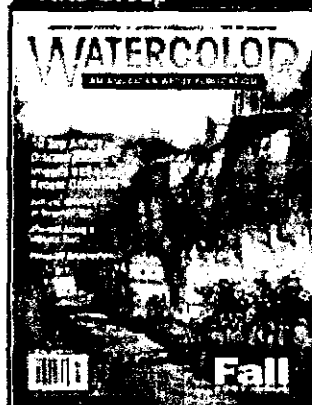
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1 CHAIRMAN OMAS: Is there anyone else who
2 wishes to cross-examine this witness?

3 (No response.)

4 CHAIRMAN OMAS: Are there any questions from
5 the bench?

6 (No response.)

7 CHAIRMAN OMAS: Mr. Straus, would you like
8 some time with your witness?

9 MR. STRAUS: Just a couple of minutes,
10 please.

11 CHAIRMAN OMAS: Thank you.

12 (Off the record.)

13 CHAIRMAN OMAS: Mr. Straus?

14 MR. STRAUS: Yes. I have a little bit, Your
15 Honor.

16 CHAIRMAN OMAS: Proceed.

17 CROSS-EXAMINATION

18 BY MR. STRAUS:

19 Q Mr. Bradfield, the exhibit, Cross-
20 examination Exhibit 6, lists, as you discussed with
21 Mr. Levy, some information about VNU Business
22 Publications, and he gave no indication about why he
23 cares, but let me ask you this. These all list a
24 cover price. Is that cover price meaningful in terms
25 of what the publications actually produce in terms of

1 revenue?

2 A No.

3 Q The pages aren't numbered. The publication
4 would be Contract --

5 A Yes.

6 Q -- about 12 or 13 pages in. What cover
7 price is listed there?

8 A Ten dollars.

9 Q And is that publication sold on the
10 newsstand?

11 A No.

12 Q And is that publication a paid subscription
13 publication or a requestor publication?

14 A Requestor.

15 Q Would one be able to tell, with respect to
16 the paid publications, what the subscription prices
17 are from the information here?

18 A No. I can't tell. They are all over the
19 place, and they are set by another department.

20 MR. STRAUS: Thank you. That's all I have.

21 CHAIRMAN OMAS: Thank you, Mr. Straus.

22 Mr. Bradfield, that completes your testimony
23 here today. We appreciate your contribution and your
24 testimony to our record, and you are now excused.
25 Thank you.

1 THE WITNESS: Thank you.

2 (Witness excused.)

3 MR. STRAUS: American Business Media calls
4 Joyce McGarvy.

5 Whereupon,

6 JOYCE MCGARVY

7 having been duly sworn, was called as a
8 witness and was examined and testified as follows:

9 CHAIRMAN OMAS: Please be seated.

10 DIRECT EXAMINATION

11 BY MR. STRAUS:

12 Q Ms. McGarvy, would you please state your
13 name and the name of your employer?

14 A Joyce McGarvy (off mike).

15 Q Are you sure that the Postal Service isn't
16 your employer, with all of the activities you --

17 A Sometimes it's questionable.

18 Q Ms. McGarvy, if your testimony were to be
19 given today, would it be the same?

20 A Yes, with a couple of exceptions.

21 Q Could you please give those corrections?

22 A That's page 5, line 3; the transcript number
23 197 should be 10197. Page 5, line 21, transcript 150
24 should be 10150. Page 5, 22, transcript 532 should be
25 10532.

1 Q Thank you, and with those changes, your
2 testimony would be the same.

3 A That's correct.

4 MR. STRAUS: Mr. Chairman, I would like to
5 hand two copies to the reporter and ask that it be
6 transcribed into the record. I don't think I ever
7 moved into evidence Mr. Bradfield's testimony and
8 exhibits, so I should move them both into evidence.

9 CHAIRMAN OMAS: Without objection, so
10 ordered.

11 MR. STRAUS: Thank you.

12 CHAIRMAN OMAS: Hearing none, I will direct
13 counsel to provide the reporter with two copies of the
14 corrected testimony of Joyce McGarvy. That testimony
15 is received into evidence and is to be transcribed
16 into the record.

17 (The document referred to was
18 previously marked for
19 identification as Exhibit No.
20 ABM-RT-2 and was received in
21 evidence.)

22 //

23 //

24 //

25 //

Postal Rate Commission
Submitted 11/20/2006 3:39 pm
Filing ID: 55050
Accepted 11/20/2006

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

REBUTTAL TESTIMONY OF JOYCE McGARVY
ON BEHALF OF AMERICAN BUSINESS MEDIA
(November 20, 2006)

1 My name is Joyce McGarvy, and I am submitting this testimony on behalf of
2 American Business Media in order to comment on the rate and restructuring proposals
3 that have been advanced in this proceeding by Time Warner and the Magazine
4 Publishers of America (jointly with the Association of Nonprofit Mailers).

5 I found it interesting that, in reviewing my testimony from Docket C2004-1, the
6 Time Warner et al. complaint case, the summary there fits very well here. I said there
7 that, "as a general matter, I agree that Periodicals mailers should take whatever steps
8 are reasonably possible to reduce their own postage costs as well as the Postal
9 Service's costs (that are, after all, passed through to mailers)." I still agree. I added
10 that the Time Warner restructuring proposal in that case was "too much, too fast" and
11 that, if implemented, it would sacrifice many small publications in order to assure
12 guaranteed rate reductions for Time Warner and would result in speculative, modest
13 benefits, at best, for the Postal Service and most other Periodical mailers. Finally, I
14 noted that I reached those conclusions not as an economist or a Postal Service costing
15 expert but as a person who, unlike the Time Warner witnesses there, and unlike all of
16 the Time Warner and MPA/ANM witnesses in this case, has actually been involved in

1 both producing and distributing Periodicals through the mail and in dealing with printers.

2 As I said in the complaint case, "theory is nice, but reality is often different."

3 In this case, I would like to make much the same points. I recognize that the
4 Time Warner proposal is scaled back some from the one it urged in Docket C2004-1
5 and that, in some respects, the MPA proposal represents a more measured proposal
6 than that of Time Warner. They are therefore preferable to the proposal advanced in
7 the complaint case. Yet I believe that the Time Warner proposal and, to a significantly
8 lesser extent, the MPA proposal still provide inadequate protection to mailers of
9 Periodicals that cannot escape sacks, at least in the next couple of years.

10 I do not believe that the Commission needs my advice on how big an impact is
11 too big. But I do think that I can contribute to the record by explaining why, based upon
12 Crain's actual experience, co-mailing and co-palletizing are not universally available.
13 American Business Media witness Bradfield covered the issue of circulation size, and,
14 while I agree with him, I will not duplicate that testimony or his testimony about impact
15 and the recent growth of co-mailing and co-palletizing.

16 **Autobiographical Sketch**

17 My present position is Vice President/Distribution for Crain Communications,
18 where I have been employed for 27 years. Crain Communications is primarily a
19 publishing company with 24 domestic titles providing vital news and information to
20 industry leaders and consumers. Each newspaper or magazine has become required
21 reading and an authoritative source in its own sector of business, trade and consumer
22 market. My responsibilities include managing the distribution of all of Crain's weekly, bi-

1 weekly and monthly publications, a job that includes managing the company's postal
2 affairs.

3 During my years at Crain, I have been very active in the industry. I am presently
4 the Industry Chair of the Mailers Technical Advisory Committee (MTAC) and President
5 of the Red-Tag News Publications Association. I have served on MTAC for
6 approximately eleven years, during which time I served on numerous committees and
7 work groups, including serving as Industry Co-chair for the Electronic Publication Watch
8 and the Electronic Mail Improvement Reporting (eMIR) work groups. I am the Industry
9 Co-chair for the Periodicals Operations Advisory Committee (POAC), and I serve as
10 Industry Co-chair for the Postal Service's Periodicals National Focus Group and the
11 Great/Lakes area, and I am a member of the Periodicals Advisory Group.

12 I have a degree in Transportation from the College of Advanced Traffic, Chicago,
13 IL, a Bachelor's Degree in Business Administration from Cleary College, and a Master's
14 of Science in Administration Degree from Central Michigan University.

15 **Co-mailing and Co-palletizing**

16 Editorial and timely news is extremely important to my company. Because timely
17 editorial and news are crucial to our publications, especially our 19 weeklies and bi-
18 weeklies (on which I will focus exclusively in the remainder of this testimony), we do not
19 close the final editorial pages until the close of business on Friday. The publications all
20 have a Monday cover date, and it is our intent is to have the publication delivered to the
21 readers on Monday. Crain has two separate co-palletization operations at two different
22 printers every Friday night. We are somewhat unique in that we only co-palletize the
23 Crain publications with other Crain publications, because that is the only way that we

1 can avoid being subject to scheduling problems caused by others. We can control our
2 own timing, but not that of others, and for news publications, that timing is crucial.

3 In order to expedite the delivery of our publications, we began co-palletizing our
4 publications in 1987, before there was even a formal co-palletization program and
5 before there were any discounts for palletizing. Because our publications are time-
6 sensitive, we are able to co-palletize only to destinations that are close enough for us to
7 reach using ground transportation. There are some destinations where we have no
8 choice except to use air freight, and for these destinations we must use sacks.

9 There are several reasons why we cannot co-palletize these destinations. The
10 most important is that pallets will not fit on narrow-body aircraft, which are the only
11 aircraft available in some markets. In addition, even if a wide-body plane is scheduled,
12 there are sometimes last-minute changes in equipment that would leave our pallets
13 stranded. Finally, it is expensive to air freight, and when we are able to ship in LD3
14 containers, we pay by the container, so we need to fill the container with as much mail
15 as possible.

16 It would be nice if we could co-mail our weekly publications, but we have not
17 been able to due to time constraints and the inability to find a vendor that can
18 accomplish the co-mailing and meet our dispatch requirements. We have asked both of
19 our major printers, which are industry leaders, to find a way for us to co-mail our weekly
20 publications, but neither printer has been able to find a way to make that happen. Other
21 American Business Media members with weekly publications face the identical problem.

22 One example of co-mailing by weeklies has been highlighted in this case—the
23 co-mailing of U.S. News with Information Week. This is surely a special case that has

1 nothing to do with our or other medium and small circulation weeklies and bi-weeklies.

2 First, this is a two-publication "pool" consisting of one publication with a circulation of

3 nearly 2,000,000 and one with 400,000 (Tr.¹⁰197). It is apparently possible, although

4 not easy, to coordinate these two weeklies. See Exhibit JM-1, a statement presented to

5 the Idealliance Addressing and Distribution Conference in April of this year by Michael

6 Armstrong of U.S. News. It is not possible to coordinate the much larger number of

7 separate weekly publications with circulations of 50,000, or 5,000 that would be

8 necessary to make up a co-mail pool of sufficient size. Ovid Bell, for example, touted as

9 a co-mailer of small-circulation publications, does not co-mail weeklies. In fact, the

10 Quad/Graphics co-mailing of these two very large weeklies is so unusual that, according

11 to witness Cohen (MPA/ANM-T1 at 14), it is featured on the Quad/Graphics web site.

12 More typical of co-mailing shorter run publications—monthlies, not weeklies—is

13 the experience of American Business Media member Hanley Wood at Donnelley. It

14 takes Donnelley 7 full days, with the co-mail line running 24 hours a day, to complete

15 one pool with between 1.5 million and 3 million pieces. There are restrictions on

16 participation, such as size of the list and the number of versions. As a result, Hanley

17 Wood, which does some co-palletizing on all of its magazines, is able to co-mail only 2

18 of its 15 publications.

19 Co-mailing tabloids presents a special problem, because with their larger trim

20 size they cannot be co-mailed with standard-size publications. MPA witness Cohen

21 agreed that there is no co-mailing of tabloids now (Tr.¹⁰150). I understand that witness

22 Stralberg suggested that Donnelley has recently added that capability (Tr.¹⁰532). He

23 may have been referring to Donnelley's discussions with Crain. In the beginning of the

1 year we asked Donnelley to do a study of the Crain titles, which include standard- size
2 and tabloid-size publications, to determine if we could co-mail our tabloids. It said that it
3 could re-configure one of its co-mail lines to handle tabloids, but that co-mailing would
4 require us to move our dispatch schedule back 24 hours. We just can't do that.

5 We are left, then, unable to co-mail and able to co-palletize only to a limited
6 extent. Even with the co-palletization we are able to accomplish, we must limit the pool
7 to our own titles, which means that our pool is small and that we are unable to obtain all
8 of the theoretical benefits of palletization, such as drop-shipping, to as great an extent
9 as would be available in a large pool.

10 The result is that the rate proposals of MPA and Time Warner would be worse for
11 those co-palletized publications than the USPS proposal. The data to support this
12 conclusion were provided by American Business Media in response to Time Warner's
13 interrogatory TW/ABM-5, and are attached as Exhibit JM-2. The interrogatory
14 response did not identify the source of the numbers, but I am now prepared to state
15 that they were developed for Crain's co-palletized publications, using the "tool" offered
16 by Time Warner.

17 More recently, I was asked by another American Business Media member,
18 PennWell, to run the impact numbers on its publication Oil & Gas Journal, a weekly
19 publication with a circulation of a little over 18,000. Its printer, Brown Printing, makes
20 up pallets where it can, and managed in the mailing analyzed to produce 4 pallets with
21 406 bundles and 5,950 pieces. It also produced 247 sacks with 979 bundles and
22 12,382 pieces. Under the Postal Service proposal, its postage would increase by

1 13.51%. Under the MPA/ANM and Time Warner proposals, the increase would be
2 17.45% and 17.47% respectively.

3 I know from my experience with the many committees and groups in which I
4 participate that Crain is not alone in being required, at least for now, to mail in sacks.
5 Other publishers, in addition to PennWell, have weekly publications that have not been
6 able to land in a co-mail pool, for much the same reason that our weeklies cannot.
7 Others have circulations that are deemed by nearly all printers to be too small, or they
8 have larger circulation but various versions that are too small.

9 I am hopeful that once the Postal Service has completed its ongoing automation
10 efforts with the FSS program, and as more and more titles that can be co-mailed or co-
11 palletized are in fact prepared that way, opportunities for our publications to get out of
12 sacks and into either alternative containers or co-mailing or co-palletizing programs will
13 materialize. As witness Bradfield explains, American Business Media's data provided
14 in response to a data request show that, based upon responses to a survey, about
15 75% of our members' pieces are now on pallets. Some members indicated that they
16 will, or may, be switching in the near future. I think that this shows that the present
17 incentives, which will be increased as a result of this case no matter which proposal or
18 combination of proposals the Commission adopts, are doing their job. It is
19 unnecessary to expose those that cannot move from sacks to punishing rate levels in
20 order to increase the incentives and rewards for palletizing too much and too soon.

Michael Armstrong's Comments for Idealliance, Addressing & Distribution Conference
4/26/06

Good morning.

We are in love with the idea of mail consolidation, and have been itching to try it on *U.S. News* for years.

We first co-mailed a then-sister publication, *The Atlantic Monthly*, in the mid-1980s, using Quad/Graphics' Sussex co-mailing operation. Ten years ago, we achieved some consolidation for our weekly magazine when we began pool shipping *U.S. News* with catalogs and other magazines. Last year we launched a small sister publication, *Radar Magazine*, and were happy to co-mail both the main run and supplemental copies using Quebecor World's innovative Express Collation Mailing System (ECMS).

It might seem strange that *U.S. News* has long wanted to consolidate the mailing of its copies with those of other publishers. After all, we are a weekly news magazine with two million subscribers and a demanding delivery schedule. Three out of four copies *already* qualify for carrier route discounts, and over 98% of copies are already on pallets, so why would this be something we would want to do? What's in it for us?

The answer may surprise you. We want to become a more valuable customer to our printer. Think about it. From a strategic perspective, would you rather be known as a difficult customer likely to cut into your printer's profits – or one likely to boost your printer's bottom line?

Of course, it helps in the Information Week program that *U.S. News* sees a significant postage savings by adding their copies to our mailing volume. We see our carrier route percentage increase by more than 3 points (versus binding alone), with that

additional piece discount *by itself* yielding savings of more than \$4,000 per issue. Do the math. For a weekly, that adds up fast.

So why didn't we do this earlier? Quad/Graphics had to do four things to make this work for us.

First, we did not want the time to process our mailing file to be extended at all. We did not want to force the fulfillment company to close the subscriber file earlier so that there would be more time for presorting. Quad's high speed presort took care of this. The co-mail presort is on the same schedule as conventional mailing.

Second, we needed to be absolutely certain that there would be no screw-ups where we mixed the pages of the two publications in the bindery. In particular, we needed to be sure we would avoid mistakes in executing our complex bindery plan, which routinely involves hundreds of versions in an issue. The solution was Prose XML, a format for information exchange developed by IDEAlliance. Every week we send Quad a Prose XML file that has all the data it needs to produce the issue. Using mostly software programs, not people, Quad takes that data and assembles it into its internal instructions, the way *it* like to see them. They do this in a few hours, and the whole process is bulletproof.

Third, we did not want mail consolidation to restrict our use of demographic and geographic targeting. We tried co-mailing demographic issues, but we found that multiple metro splits and complex demographic targeting were tough to manage in a conventional co-mailing operation like the ones used mostly for monthly magazines. Co-binding allows us to have our cake and eat it, too – we get geo-demo targeting seamlessly with the co-bind operation. In fact, co-binding is just selective binding with extra care taken to ensure pockets are loaded correctly. It's selective binding on steroids.

Fourth, we wanted to maintain our in-home delivery, with almost all subscribers receiving their copies on Monday or Tuesday after the weekend's production. This was achieved simply by running the combined publications on enough lines to meet our old delivery schedule.

Where do we see this going? We think that postal rate incentives over the next five years will track the efficiencies in the deployment of FSS processing equipment. We believe the key opportunity for mailers will be containerization – the way the mail is packed and presented to the USPS. No one today can predict exactly what the rules of the game will be in three or four years. But there's good reason to believe the most cost-effective containerization will depend on mailers creating large consolidated mailings with very large groups of copies (bundles, trays, logs, etc), probably organized by 5-digit scheme.

If we are right, there can only be increasing value to adding partners to high-density mailings. Increasing value will drive engineering investment and invention in the printers' binderies, and pull more participants into consolidated mailing programs.

Today we ask ourselves – and we think others in the industry should ask – if this works for U.S. News and Information Week, why wouldn't it work for other time-sensitive publications?

| | | | | USPS | | | | MPA | | | | Time Warner | | | | |
|------------------|-------|-------------------|-----------------------|---------------------|------------|----------------------|-------------------------|----------------------|------------|----------------------|-------------------------|----------------------|------------|----------------------|-------------------------|----------------------|
| Pub | Freq. | Copies Mailed '88 | Cost Per Copy Current | Current Annual Cost | % Increase | \$ Increase Per Copy | Per Issue Cost Increase | Annual Cost Increase | % Increase | \$ Increase Per Copy | Per Issue Cost Increase | Annual Cost Increase | % Increase | \$ Increase Per Copy | Per Issue Cost Increase | Annual Cost Increase |
| Sub Total | | | | | | | | | | | | | | | | |
| Co-Palletized | | | | | | | | | | | | | | | | |
| A | 51 | 33290 | \$ 0.2782 | \$ 497,232 | 12.60 | \$ 0.0344 | \$ 1.145 | \$ 58,404 | 14.56 | \$ 0.0401 | \$ 1.334 | \$ 68,029 | 15.82 | \$ 0.0436 | \$ 1.458 | \$ 74,383 |
| B | 53 | 82449 | \$ 0.3258 | \$ 1,078,332 | 12.50 | \$ 0.0407 | \$ 2.543 | \$ 134,791 | 14.56 | \$ 0.0474 | \$ 2.962 | \$ 157,005 | 15.92 | \$ 0.0519 | \$ 3.239 | \$ 171,670 |
| C | 52 | 45962 | \$ 0.2591 | \$ 618,120 | 12.50 | \$ 0.0324 | \$ 1.468 | \$ 77,390 | 14.56 | \$ 0.0377 | \$ 1.734 | \$ 90,144 | 15.92 | \$ 0.0412 | \$ 1.985 | \$ 98,564 |
| D | 46 | 24789 | \$ 0.2908 | \$ 331,731 | 12.50 | \$ 0.0384 | \$ 1.801 | \$ 41,468 | 14.56 | \$ 0.0423 | \$ 1.050 | \$ 48,300 | 15.92 | \$ 0.0463 | \$ 1.148 | \$ 52,812 |
| E | 17 | 46862 | \$ 0.2645 | \$ 206,623 | 12.50 | \$ 0.0331 | \$ 1.519 | \$ 25,828 | 14.56 | \$ 0.0385 | \$ 1.770 | \$ 30,084 | 15.92 | \$ 0.0421 | \$ 1.935 | \$ 32,894 |
| Sub Total | | | | \$ 2,703,039 | | | \$ 7,597 | \$ 337,880 | | | \$ 8,849 | \$ 393,562 | | | \$ 9,676 | \$ 430,324 |
| Co-Palletized | | | | | | | | | | | | | | | | |
| F | 49 | 42831 | \$ 0.2367 | \$ 497,927 | 12.61 | \$ 0.0288 | \$ 1.281 | \$ 82,789 | 14.41 | \$ 0.0341 | \$ 1.464 | \$ 71,751 | 14.85 | \$ 0.0347 | \$ 1.490 | \$ 72,996 |
| G | 26 | 52801 | \$ 0.2661 | \$ 366,308 | 12.40 | \$ 0.0330 | \$ 1.742 | \$ 45,298 | 14.49 | \$ 0.0386 | \$ 2.036 | \$ 52,933 | 14.44 | \$ 0.0384 | \$ 2.029 | \$ 52,761 |
| H | 28 | 50852 | \$ 0.2459 | \$ 325,757 | 12.61 | \$ 0.0310 | \$ 1.580 | \$ 41,078 | 14.41 | \$ 0.0354 | \$ 1.805 | \$ 46,842 | 14.66 | \$ 0.0360 | \$ 1.837 | \$ 47,759 |
| I | 62 | 81282 | \$ 0.2437 | \$ 776,387 | 12.61 | \$ 0.0307 | \$ 1.883 | \$ 87,886 | 14.41 | \$ 0.0351 | \$ 2.151 | \$ 111,870 | 14.66 | \$ 0.0357 | \$ 2.189 | \$ 113,811 |
| J | 51 | 74368 | \$ 0.1769 | \$ 670,850 | 12.61 | \$ 0.0223 | \$ 1.859 | \$ 84,607 | 14.41 | \$ 0.0255 | \$ 1.896 | \$ 96,684 | 14.66 | \$ 0.0259 | \$ 1.928 | \$ 98,381 |
| K | 48 | 61689 | \$ 0.2468 | \$ 730,793 | 12.61 | \$ 0.0317 | \$ 1.920 | \$ 92,153 | 14.41 | \$ 0.0358 | \$ 2.194 | \$ 105,307 | 14.66 | \$ 0.0362 | \$ 2.232 | \$ 107,134 |
| L | 23 | 51984 | \$ 0.2470 | \$ 285,321 | 12.40 | \$ 0.0306 | \$ 1.582 | \$ 36,820 | 14.48 | \$ 0.0358 | \$ 1.861 | \$ 42,782 | 14.44 | \$ 0.0357 | \$ 1.854 | \$ 42,844 |
| Sub Total | | | | \$ 3,862,392 | | | \$ 11,657 | \$ 480,440 | | | \$ 13,407 | \$ 628,279 | | | \$ 13,559 | \$ 635,453 |
| Co-Palletized | | | | | | | | | | | | | | | | |
| M | 12 | 30805 | \$ 0.3723 | \$ 136,071 | 14.02 | \$ 0.0522 | \$ 1.813 | \$ 19,368 | 16.21 | \$ 0.0603 | \$ 1.885 | \$ 22,361 | 19.51 | \$ 0.0726 | \$ 2.245 | \$ 26,938 |
| N | 53 | 32356 | \$ 0.1856 | \$ 318,269 | 13.08 | \$ 0.0243 | \$ 786 | \$ 41,634 | 10.82 | \$ 0.0197 | \$ 638 | \$ 33,803 | 9.27 | \$ 0.0172 | \$ 557 | \$ 29,508 |
| O | 12 | 15717 | \$ 0.2932 | \$ 65,299 | 15.66 | \$ 0.0459 | \$ 722 | \$ 8,980 | 19.38 | \$ 0.0588 | \$ 853 | \$ 10,717 | 23.82 | \$ 0.0683 | \$ 1,088 | \$ 13,082 |
| P | 12 | 24728 | \$ 0.3021 | \$ 89,644 | 13.67 | \$ 0.0413 | \$ 1,021 | \$ 12,254 | 18.48 | \$ 0.0589 | \$ 1,456 | \$ 17,472 | 18.94 | \$ 0.0572 | \$ 1,415 | \$ 16,978 |
| Q | 12 | 17955 | \$ 0.2966 | \$ 63,680 | 15.14 | \$ 0.0448 | \$ 804 | \$ 9,643 | 18.54 | \$ 0.0578 | \$ 1,037 | \$ 12,446 | 22.33 | \$ 0.0680 | \$ 1,185 | \$ 14,222 |
| R | 25 | 15917 | \$ 0.2284 | \$ 80,080 | 17.73 | \$ 0.0401 | \$ 639 | \$ 15,973 | 20.54 | \$ 0.0465 | \$ 740 | \$ 18,505 | 28.18 | \$ 0.0638 | \$ 1,016 | \$ 25,396 |
| S | 26 | 31117 | \$ 0.2808 | \$ 235,108 | 13.89 | \$ 0.0407 | \$ 1,265 | \$ 32,892 | 19.09 | \$ 0.0555 | \$ 1,726 | \$ 44,882 | 20.53 | \$ 0.0597 | \$ 1,856 | \$ 48,208 |
| Totals | | | | \$ 7,355,831 | | | \$ 936,733 | \$ 12,781 | | | \$ 30,812 | \$ 1,082,046 | | | \$ 32,597 | \$ 1,140,147 |
| Percent Increase | | | | | | | | | | | | | | | | |
| Grand Total | | | | \$ 10,686,679 | | | \$ 11,525,412 | \$ 14,712 | | | \$ 11,888,725 | \$ 14,712 | | | \$ 11,726,826 | \$ 15,501 |

1 CHAIRMAN OMAS: This brings us to oral
2 cross-examination. One request for oral cross has
3 been filed. Mr. Levy, you may begin.

4 MR. LEVY: Thank you, Mr. Chairman.

5 CROSS-EXAMINATION

6 BY MR. LEVY:

7 Q Good evening, Ms. McGarvy. Could you please
8 turn to page 5 of your rebuttal testimony?

9 A Got it.

10 Q Beginning on line 19, you discuss the co-
11 mailing of tabloids.

12 A Correct.

13 Q And on line 22, you refer to Donnelly.

14 A Correct.

15 Q That refers to R.R. Donnelly?

16 A That's R.R. Donnelly, yes.

17 Q That's a big printer.

18 A In Bolling Brook, Illinois, is where their
19 co-mailing operation is.

20 Q Now, Donnelly offered to set up a co-mailing
21 pool for tabloids.

22 A For Crane tabloids.

23 Q So printers are willing to offer co-mailing
24 of tabloids today.

25 A Not at the moment, they are not. Well, I'll

1 take that back. I know of one printer that actually
2 has a tabloid co-mailing, and it's not co-mailing as
3 we would describe for a Quebecor or Donnelly. It's
4 four titles being bound together on the same binding
5 line.

6 Q Could you go to page 6 of your testimony? I
7 direct your attention to line 2, the sentence that
8 begins on line 2: "It said that it could
9 reconfigure." Who is "it"?

10 A That would be R.R. Donnelly.

11 Q So R.R. Donnelly told --

12 A We went to them and asked could they figure
13 out how to co-mail because it's important to everybody
14 to maintain costs, keep the postal costs down, our
15 costs, and they said that they would take one of their
16 current co-mailing lines, one of the smaller lines
17 that they have, and reconfigure it for Crane for co-
18 mail our tabloids. The problem was we would have to
19 give up a 24-hour window and actually expedite our
20 publications 24 hours later.

21 Q So if you had been willing to change your
22 cutoff by 24 hours, you could have had co-mailing of
23 your tabloids.

24 A We could do that, but our business model has
25 our close of our editorial on Friday night, which is

1 very important that we stay open. Because we are news
2 publications, we stay open until the end of the
3 business day on Friday to catch as much news as
4 possible. We use the weekend to do our shipping, and
5 so that 24 hours would actually make us a day later in
6 the readers' hands.

7 Q Let's explore that. Now, on page 2 of your
8 testimony, you talk about theory versus reality.

9 A Okay. What line are you on?

10 Q Line 2.

11 A Line 2? Yep.

12 Q Now, in reality, the publishing business
13 involves trade-offs, doesn't it?

14 A Yes.

15 Q And, for example, you have to balance the
16 financial benefits of increasing the number of pages
17 per issue against the extra cost.

18 A Yes.

19 Q And you have to balance the benefits of
20 using a larger page size against the extra cost.

21 A I would say yes, but the larger page size is
22 a philosophy for Crane Communications. It's a tabloid
23 news publication, and that tabloid denotes news
24 basically.

25 Q Okay. Frequency of publication also

1 involves a trade-off.

2 A Sure.

3 Q And, likewise, a tighter editorial deadline
4 involves a trade-off --

5 A Sure, it does.

6 Q -- because the later deadline means your
7 periodical has fresher stories.

8 A Fresher stories. We have up-to-the-minute
9 stories, is what the intentions are.

10 Q Fresher stories make the publication more
11 attractive to readers.

12 A To readers, yes.

13 Q And which, in turn, makes the publication
14 more attractive to advertisers.

15 A Hopefully.

16 Q If they have more readers, and you hope
17 you'll get more advertising revenue.

18 A That's what we're hoping happens.

19 Q For some of your weekly publications, the
20 benefits of having a late-breaking editorial deadline
21 are big enough to justify the cost of air-freighting
22 those publications to multiple entry points.

23 A We wouldn't have any choice. If we're going
24 to get it in the readers' hands, we print in the
25 Midwest. We have no option except to air freight and

1 get it to those destinations to get it in the readers'
2 hands early enough for them to have fresh news;
3 otherwise, it's all over the Internet; it's
4 everywhere.

5 Q You could get it into the readers' hands a
6 day later, but it would be less valuable.

7 A Correct.

8 Q Will you please turn to Exhibit JM-2, which
9 is the last page of your testimony?

10 A Got it.

11 Q There, on Exhibit JM-2, you compare the
12 financial effect on Crane, on the Postal Service,
13 MPAAN, and Time Warner -- proposals.

14 A Correct.

15 Q Now, for Crane, the difference between the
16 Postal Service and MPAAN proposals average less than a
17 penny per copy.

18 A I would say, looking at this, that's right.

19 Q And my next question is eyeball math, not
20 calculator math. It looks like it's about half of a
21 penny or six-tenths of a penny, roughly, on average.

22 A I'll take your word for that.

23 Q If you compare the cost per issue cost
24 increase, some of the items in the top rows are less
25 than half a penny, and then, further down towards the

1 bottom, the spread is greater, and, in a few cases,
2 it's even more than a penny.

3 A That's correct.

4 Q But somewhere it's a fraction of a penny, on
5 average. Right?

6 A Correct.

7 Q Now, these numbers are on the assumption
8 that Crane will do the same mailing practices in each
9 case.

10 A That's correct.

11 Q It's not going to respond to the MPA or Time
12 Warner proposals by changing its behavior.

13 A I don't think, business-wise, we're able to
14 change it, so the answer is, no, I don't think we
15 will.

16 Q And that's what you've assumed for these
17 calculations.

18 A Correct.

19 Q Now, you indicated before that because you
20 have a Midwestern printing plant, to reach more
21 distant destinations, you have to send those copies by
22 overnight air freight.

23 A The areas that we can truck to, we truck to.
24 Anything west of the Mississippi has to be air
25 freighted. The Southeast has to be air freighted. So

1 wherever we've been able to convert to trucks, we've
2 done that.

3 Q Roughly, for publication that have a
4 national circulation, about what percentage of the
5 copies of an issue go by air as opposed to truck?

6 A I would guess about 20 percent by air.

7 Q And my next question asks for a rough
8 figure, not a precise figure. About what, roughly, is
9 the price that Crane pays per pound for this overnight
10 air transportation?

11 MR. STRAUS: Your Honor, I object to this
12 question. This question was asked in discovery, and
13 ABM responded that this is highly proprietary
14 information about what it's paid for air freight, and
15 there was no effort made to obtain an answer at the
16 time in terms of a motion to compel, and the same
17 objection applies today.

18 CHAIRMAN OMAS: Mr. Levy?

19 MR. LEVY: This information is relevant.
20 The witness is testifying that because of their choice
21 to go with the costs and benefits of a late editorial
22 cutoff, they have to ship by air if they want to make
23 the Monday delivery. That imposes costs on air
24 transportation. It also imposes costs on the Postal
25 Service by ruling out the use of pallets and requiring

1 sacks.

2 If the Commission is going to be considering
3 the contention that this is undue burden, it is
4 relevant to look at the relative significance of the
5 financial impact of that choice in terms of what it
6 costs in increased postage versus what it costs in
7 terms of increased air fare. We believe that the air
8 fare is far more significant than the postage and that
9 both are the result of a voluntary decision.

10 I'm not unsympathetic to the issue of
11 commercial sensitivity. I agree that it is a
12 commercially sensitive thing, and I'm willing either
13 to have the answer come in camera or for the witness
14 to give an order-of-magnitude approximation. I'm not
15 asking for a precise number.

16 MR. STRAUS: Perhaps, Mr. Levy --

17 CHAIRMAN OMAS: I will sustain the
18 objection. Continue, Mr. Levy.

19 BY MR. LEVY:

20 Q Let me ask a more general question that
21 perhaps will avoid the objection. Is the additional
22 postage that Crane incurs by virtue of the tight
23 editorial deadline and the decision not to enter the
24 mail in sacks greater or less than the additional
25 shipping that Crane incurs by sending stuff by air?

1 MR. STRAUS: Mr. Chairman, I don't object to
2 this question, but I think Mr. Levy misstated because
3 he said "additional postage costs." I think he might
4 have referred to sacks, and you didn't mean to. If
5 you could just rephrase the question. I had trouble
6 following it.

7 BY MR. LEVY:

8 Q Ms. McGarvy, the decision to use a Friday
9 editorial cutoff and a Monday editorial delivery, you
10 said, requires that distant destinations go by air
11 freight. Is that correct?

12 A That's correct.

13 Q And the decision to go by air freight, in
14 turn, you testified, precludes the use of pallets. Is
15 that correct?

16 A That's correct.

17 Q Because pallets don't fit in the airplanes.

18 A That's exactly right.

19 Q And there are other logistical problems if
20 you use airplanes. My question is, the decision to
21 have a Monday delivery rather than a Tuesday delivery
22 imposes increases in both postage costs by foregoing
23 the use of pallets and also imposes air freight costs.
24 My question is, which are greater?

25 A I don't have that answer. I don't think I

1 can answer it without sitting down with calculators
2 and trying to figure it out. I don't know the answer.

3 I do know the philosophy of our company,
4 though, and our company believes in timely editorial,
5 and getting something in the readers' hands is very
6 important; otherwise, we don't have readers. But I
7 don't have the number.

8 MR. LEVY: Mr. Chairman, I would, at this
9 point, ask if the witness could respond to a
10 transcript request for that comparison.

11 CHAIRMAN OMAS: Ms. McGarvy.

12 MR. LEVY: That is, coming back later with a
13 written response.

14 MR. STRAUS: Is this something that is
15 terribly burdensome, or could you do it?

16 THE WITNESS: I don't know until I go look
17 at it.

18 MR. STRAUS: The problem, Mr. Chairman, is
19 going to be that air freight rates, as I understand
20 it, paid by Crane differ by day, they differ by
21 publication, and they differ by destination. I don't
22 know exactly what Mr. Levy is asking.

23 All of the air freight for all of their
24 publications versus all of the foregone pallet
25 discounts for all of their publications; it could be a

1 very, very complicated and time-consuming question.
2 If the question is, more generally, is it typical that
3 you would spend -- I'm not going to try to rephrase
4 Mr. Levy's question. Let him struggle with it
5 himself.

6 MR. LEVY: Could we swear in the witness?

7 BY MR. LEVY:

8 Q I'm just looking for an order-of-magnitude
9 comparison, and I'm not looking for a precise number.

10 A Until I go look at it, I really don't have
11 the answer.

12 The other issue I have is I am concerned
13 about freight rates. Those are proprietary, and if I
14 do a comparison on that and tell you that it's X
15 dollars more, you're going to figure out what the
16 freight rates are. Everybody negotiates their own
17 freight rates, and so I have some concerns about that.

18 MR. LEVY: Mr. Chairman, I would be willing
19 to have that response go under the same protective
20 order that all of the other confidential information
21 has, like POIR 19 in the workpapers. I agree that
22 that kind of stuff is confidential, and I don't want
23 to have that disclosed publicly.

24 MR. STRAUS: Would you be satisfied -- if it
25 turns out that the air freight costs are greater than

1 the postage costs, would that be enough of an answer?

2 CHAIRMAN OMAS: Mr. Levy, the record closes
3 in a few days, and I'm not sure that this is
4 particularly germane in this particular instance. So
5 I think I will deny the request.

6 MR. LEVY: May I ask the ground, just to
7 protect my client's record?

8 CHAIRMAN OMAS: Yes.

9 MR. LEVY: What is the ground, Your Honor?

10 CHAIRMAN OMAS: What exactly are you asking
11 for? Do you want something generally that gives a
12 general example? You know, at this point in the game,
13 we close the record in a couple of days, and for Ms.
14 McGarvy to try to put something together, and, as she
15 stated, there is proprietary information in there, and
16 for her to produce it, put it under seal or protective
17 conditions, I'm not sure that that's in the general
18 interest, that it's applicable in this particular
19 instance.

20 MR. LEVY: I would be satisfied with what
21 Mr. Straus -- I thought I just heard him ask.

22 MR. STRAUS: How about this? In the spirit
23 of intraclass harmony, we would stipulate that the
24 cost of air freight is a significant expenditure.
25 Whether it's bigger than or smaller than a postage

1 cost ought to be irrelevant if we're willing to
2 stipulate that they spend a significant amount of
3 money to air freight their publications.

4 MR. LEVY: Thank you, and I'll accept that.

5 CHAIRMAN OMAS: Thank you, Mr. Levy.

6 MR. STRAUS: Intraclass harmony works so
7 well.

8 CHAIRMAN OMAS: Thank you, Mr. Straus.

9 BY MR. LEVY:

10 Q Just a few more questions. These are sort
11 of obvious, but I just want to close the record.

12 Your air freight providers don't offer to
13 carry your stuff below cost, do they?

14 A No.

15 Q And you obviously don't ask them to.

16 A No.

17 Q Same for your trucking companies?

18 A Correct.

19 Q Same for your printers?

20 A Correct. Some of the printers we do, but
21 not the air freight and not the trucking.

22 MR. LEVY: One final thing again. I would
23 like to have marked as MPA Cross-examination Exhibit,
24 I think, 7 material I downloaded from the Crane Web
25 site.

1 (The document referred to was
2 marked for identification as
3 Exhibit No. MPA-X-7.)

4 BY MR. LEVY:

5 Q Would you take a look at this exhibit, Ms.
6 McGarvy, and indicate whether the first eight pages
7 appear to be a description of Crane Publications from
8 your Web site?

9 A Yes. They appear to be.

10 Q And the remaining pages appear to be
11 subscription offers for new subscribers for your
12 weekly publications.

13 A Correct.

14 MR. LEVY: Thank you. With that, Mr.
15 Chairman, I have nothing further, and I ask that
16 Exhibit 7 be transcribed into the record and moved
17 into evidence.

18 CHAIRMAN OMAS: Without objection, so
19 ordered.

20 (The document referred to,
21 previously identified as
22 Exhibit No. MPA-X-7, was
23 received in evidence.)

24 //

25 //

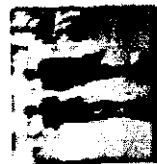


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BtoB—BtoB magazine is the only publication dedicated to integrated business-to-business marketing. Read by 100,000 B2B marketers, every issue is filled with the game-changing strategies and tactics they need to exceed. Every page and pixel is packed with substance—news, reports, technologies, benchmarks, best practices—served up by the most knowledgeable journalists. BtoB also publishes Media Business Magazine for business

MPA-X-7

publishing executives. Circulation is 45,300.

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CREATIVITY—Creativity is the definitive monthly showcase of brand-driven communications across all media. It illuminates the unique cultural context, processes and people behind the work. Combined with AdCritic.com and the e-mail newsletters for television, interactive, print and design, Creativity generates 1.5 million monthly media impressions. It is the leading source of information and insight for innovative creative and art directors, agency producers, writers and brand planners. Circulation is 33,000.

Also included in the Creativity family is Spark*. The fresh, up-market resource helps creative teams locate photographers, illustrators and designers by showcasing each artist's imagery and personality. Circulation is 32,373.

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TELEVISIONWEEK—TelevisionWeek is the community newspaper of the television industry. It is the one publication that covers all aspects of the business: programming and production; distribution and talent; broadcast, cable and satellite; advertising and media; government and regulation; finance and emerging technologies. Founded in 1982 as Electronic Media, TelevisionWeek is regarded as the most knowledgeable trade journal in television. Circulation is 36,000.

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Automotive News Group

- Automotive News
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AUTOMOTIVE NEWS—The newspaper of the automotive industry, this tabloid newsweekly is must reading for North American car and truck manufacturers, their franchised dealers, and original-equipment suppliers. More than 50 editorial employees all over the world provide news and analysis for the new vehicle business. Founded in 1925, it is the only 100 percent paid-subscription publication in the industry. Circulation is 77,700.

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AUTOMOTIVE NEWS EUROPE—Based in Germany and published in English, Automotive News Europe reports news and analyzes trends for executives of European car and truck makers and their original equipment suppliers. Staff reporters throughout the continent, augmented by the Automotive News reporter network around the world, provide unmatched timely coverage of the European car and truck business. Bi-weekly, predominately paid circulation is 19,500.

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AUTOMOBILWOCHE—Automobilwoche, the first German language newspaper for the auto industry, was launched in Germany in January, 2002 to 40,000 top automotive executives at OEMs, dealers and suppliers. The bi-weekly publication keeps the industry up-to-date with the latest news and developments from vehicle design to manufacturing to sales and marketing and covers the relationships between OEMs, suppliers and dealers.

(Click here to view Masthead information about Automobilwoche.)
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AUTOWEEK—AutoWeek and its Web site, autoweek.com, give car enthusiasts the inside track. America's only weekly car magazine, AutoWeek delivers the latest news, information and insight on new cars and trucks, vintage vehicles, motorsports, automotive lifestyle events and trends and the people who make it all happen. Paid circulation is 275,000.

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Crain's CHICAGO BUSINESS—Crain's Chicago Business is the premier source of local business news and information for the Chicago area's most influential business executives. For over a quarter-century, its weekly edition has delivered a compelling blend of scoop-oriented news and analysis. ChicagoBusiness.com is the ultimate online business tool for news, information and statistics about doing business in Chicago for decision-makers. There are more than 150,000 registered users. Print circulation is 50,300.

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Crain's CLEVELAND BUSINESS—For more than a quarter-century, Crain's Cleveland Business has been Northeast Ohio's leading source for weekly business news, analysis and commentary. Its award-winning editorial staff reports on area companies, executives and business owners in manufacturing, finance, healthcare, real estate, higher education, government, technology, law and more. Crain's Cleveland Business: On The Web covers local breaking business news everyday through its daily edition and publishes expanded and online-only content. Circulation: 21,000.

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Crain's DETROIT BUSINESS—Detroit's leading weekly business publication for upper-level executives and business owners. Coverage: industry rankings, auto supplier news, non-auto manufacturing, health care, commercial and industrial real estate, technology, small business,

finance and "executive life" issues. Registered users enjoy free daily, weekly and breaking news e-mails. 100 percent paid circulation for print publication: 35,000, with readership of nearly 140,000. Registered Web users: 66,800

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Crain's New York Business—A weekly tabloid newspaper focusing on New York-area business news for upper-level executives and entrepreneurs. Covering all industry sectors including real estate, finance, advertising, hospitality, business services and technology, as well as city politics. The paper publishes two daily newsletters: Insider, covering state/local government and politics and Pulse, covering the health care industry. Circulation is 61,000.

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Crain's Mexico—The only business publication for the world's largest Spanish-speaking market, Crain's Mexico covers the leading businesses in Mexico City and is the most recognized source of information for small and medium size companies in the region. The publication is distributed every other week to business owners and entrepreneurs. Circulation is 21,000.

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Crain's Monterrey—Crain's Monterrey is the leading publication for providing Monterrey's business news. The publication is delivered every other week to business owners and upper-level executives, providing exclusive information of the leading industry sectors and businesses with a special focus on real estate, small companies, software development, incubators and education. Circulation is 16,000.

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Communications

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Environmental

■ Waste News

WASTE NEWS—Founded in 1995, Waste News is a tabloid newspaper published biweekly for environmental managers. The paper and its Web site, wastenews.com, report on the generation and handling of solid and hazardous waste and the management of wastewater and air pollution. Other related products include: daily news e-mail, Digital Buyer's Guide, online environmental library and recycled materials pricing. Circulation is 51,000.

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Healthcare

■ Modern Healthcare

MODERN HEALTHCARE—Modern Healthcare is the industry's leading source of healthcare business news, reporting on the issues that have a direct impact on the business decisions healthcare professionals make every day. Complementing the weekly publication are two daily e-newsletters, Daily Dose and Health IT Strategist; a breaking news e-mail, Modern Healthcare Alert; a monthly e-zine, Modern Physician and two Web sites. Circulation: 71,000.

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WORKFORCE MANAGEMENT—Workforce Management is the leading information source for human resource executives and C-level leaders who contribute to bottom line business results through advanced Human Resources practices. Workforce Management provides news, trends and analysis to 51,000 print and 415,067 registered online members and hosts the coveted Optimas Awards for HR excellence. Long-recognized for its award-winning journalism, Workforce Management was started in 1922 and remains one of the most respected and continuously published trade periodicals in the country.

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Investments & Insurance

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BUSINESS INSURANCE Europe—Business Insurance Europe is a biweekly Pan-European newspaper edited for the European risk management community. In addition to these corporate insurance buyers, BIE is read by insurance brokers, agents, insurers, reinsurers, law firms, consultants and others concerned with corporate insurance, risk management and alternative risk financing. Current circulation is 16,500.
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FINANCIALWEEK—FinancialWeek is edited for the "C-Suite" and other decision-level financial executives in the top U.S. companies. Every issue gives readers the news that is important to them in one concise, easily-digested weekly package, making FinancialWeek the indispensable source for intelligence on the issues affecting corporate money. Projected circulation is 50,000.
 (Click here to view Masthead information about FinancialWeek.)

INVESTMENT NEWS—InvestmentNews is the national newspaper for financial advisers. Every Monday it provides news vital to their businesses, including news affecting their clients' investments and reports about the growing financial planning industry and the companies that serve it. Circulation is 60,100.
 (Click here to view Masthead information about InvestmentNews.)
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PENSIONS & INVESTMENTS—Every other Monday, P&I delivers critical financial news to executives responsible for the investment of large institutional assets such as pension funds, endowments and foundations. It reaches top corporate executives and government leaders, pension fund managers, investment advisers, consultants, and financial institutions. It is the world's leading newspaper for institutional investing. Circulation is 50,000.
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Plastics & Rubber

- European Rubber Journal
- Plastics News
- Tire Business
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■ Rubber & Plastics News

EUROPEAN RUBBER JOURNAL—The only English language Pan-European rubber magazine covering the world's most dynamic and globally integrated industrial business. Published six times per year by Crain's London office, ERJ covers developments in the rubber and related end-user industries. Circulation is 8,000.

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PLASTICS NEWS—Founded in 1989, Plastics News is a weekly business newspaper for plastics industry executives. The publication, via its English and Chinese language online news services and e-mail products, delivers breaking news, features, detailed rankings, economic data and materials pricing to readers around the world. Its conferences and Plastics Encounter trade shows provide dynamic forums for showcasing products, technologies and ideas. Circulation is 60,500.

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RUBBER & PLASTICS NEWS—RPN is a fortnightly tabloid newspaper reaching 16,000 rubber product manufacturers and others allied to the rubber industry. It provides news, features, technical and marketing information in print and daily on the Internet to rubber manufacturers, suppliers, consultants and laboratories. Rubber & Plastics News II, a Web product, delivers news to paid subscribers every other week.

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TIRE BUSINESS—Tire Business is a tabloid newspaper published every other week providing timely news and features on the North American tire and automotive service businesses for independent tire dealers, retreaders, wholesalers and other allies to these fields. Stories focus on news events, management, marketing, new products, technology, regulatory/governmental affairs and other trends and developments. Circulation is 30,800.

(Click here to view Masthead information about Tire Business.)

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URETHANES TECHNOLOGY—The premier technical and business magazine for the global polyurethanes industry, Urethanes Technology has been published bimonthly in English and is the organizer of the UTECH Exhibitions and Conferences in Europe, Asia and the Americas. Circulation is 6,000.

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American Trade Magazines

- American Coin-Op
- American Drycleaner
- American Laundry News

AMERICAN COIN-OP—American Coin-Op has been covering the coin laundry industry for more than 45 years. The monthly publication offers operators, manufacturers and suppliers in-depth coverage of the latest industry trends, new products, energy-saving methods and management strategies. Wire, an e-mail service, provides breaking news, giving subscribers a leg up on the competition. Circulation is 17,700.

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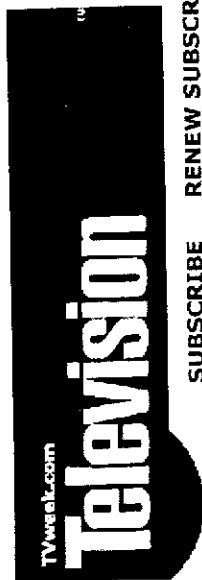
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- ☐ Other Wireless Carriers
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- ☐ Financial Services, Consultants
- ☐ Other activities

Select the option that best describes your job title. (select

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only one) *

In the performance of your job, which of the following do you specify, recommend, and or purchase? (check all that apply)

- ☐ Wireless Handset Devices (phones, PDA's, etc.)
- ☐ Accessories/Batteries
- ☐ Data Cards
- ☐ Test/Measurement Equipment
- ☐ Towers/Site Structures/Infrastructure/Site Mgmt
- ☐ Wireless Network Equipment/Services
- ☐ Wireless Content (games, music, video)
- ☐ Engineering/Consulting Services
- ☐ Financial Services/Investment Banking/Venture Capital
- ☐ Software
- ☐ Semiconductors
- ☐ None of the Above

For verification purposes, can you tell me what is the first letter of the city where you were born? *

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Modern Healthcare

Monday, December 4, 2006

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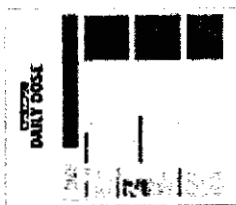
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Which best describes your title? *

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Monday, December 4, 2006

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Total assets that is personally managed or advised

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1 CHAIRMAN OMAS: Is there any other party who
2 wishes to cross-examination this witness?

3 (No response.)

4 CHAIRMAN OMAS: There are no questions from
5 the bench. Therefore, Mr. Straus, would you like some
6 time with your witness?

7 MR. STRAUS: No. I have no redirect.

8 CHAIRMAN OMAS: Thank you.

9 Ms. McGarvy, that completes your testimony
10 here today, and we appreciate your contribution to our
11 record, and you are now excused. Thank you.

12 (Witness excused.)

13 CHAIRMAN OMAS: This concludes today's
14 hearings. We will reconvene tomorrow morning at nine-
15 thirty, when we will receive testimony from Witness
16 Ozzo Kelly and Zeno and Elliott.

17 (Whereupon, at 6:22 p.m., the hearing in the
18 above-entitled matter was adjourned, to reconvene at
19 9:30 a.m. on Tuesday, December 5, 2006.)

20 //

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23 //

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REPORTER'S CERTIFICATE

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